REPORT & RECOMMENDATIONS

OF THE MINISTER'S

TASK FORCE

ON CREDIT UNIONS

SEPTEMBER 1985

Alberta
CONSUMER AND CORPORATE AFFAIRS

Minister's Task Force
on Credit Unions

11th Floor, Capitol Square, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1 403 / 422-3935

June, 1985

The Honourable Connie Osterman
Minister of Consumer and Corporate Affairs
Province of Alberta

Madam,

We, the undersigned Members of the Minister's Task Force on Credit Unions have the privilege and pleasure of submitting to you the attached Report.

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Chairman

Gary G. Campbell
Vice-Chairman

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A. F. "Chip" Collins

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REPORT OF THE MINISTER'S TASK FORCE ON CREDIT UNIONS

JUNE, 1985

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GLOSSARY OF TERMS AND ABBREVIATIONS

FOR PURPOSES OF THIS REPORT

A.D.I.C. - the proposed ALBERTA DEPOSIT INSURANCE CORPORATION, to be established pursuant to the proposed ALBERTA DEPOSIT INSURANCE CORPORATION ACT.

Administration - a situation where the STABILIZATION CORPORATION (RESERVE BOARD) assumes all of the powers of the board of directors and manages the day-to-day affairs of a Credit Union or the FEDERATION.

Adult - all individuals qualifying under the laws of Alberta to incorporate a corporation and to enter into binding credit transactions.

C.C.C.S. - the CANADIAN CO-OPERATIVE CREDIT SOCIETY, which is registered under the Federal COOPERATIVE CREDIT ASSOCIATIONS ACT.

C.D.I.C. - the CANADA DEPOSIT INSURANCE CORPORATION, which is established pursuant to the Federal CANADA DEPOSIT INSURANCE CORPORATION ACT.

C.I.C.A. - the CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS.

Dividend - includes the following pro-rata distributions:

a) a payment to Shareholders determined on the basis of the number of Equity Shares held;
b) a payment to members determined on the basis of the amount credited to their Member Equity Accounts;
c) a payment to members determined on the basis of the amount credited to their Membership Share Savings Accounts;
d) a payment to depositors determined on the basis of the interest paid by the Credit Union; and

e) a payment to borrowers determined on the basis of the amount of interest paid to the Credit Union by the borrower.

Equity	-	includes Equity Shares, Member Equity Accounts, and Retained Earnings.
Equity Shares	-	a class of shares having a par value of $5.00 that are not Membership Shares and that are not insured by the ALBERTA DEPOSIT INSURANCE CORPORATION.
FEDERATION	-	the CREDIT UNION FEDERATION OF ALBERTA, which conducts business under the trade name Credit Union Central or Alberta Central, and which is incorporated pursuant to the CREDIT UNION FEDERATION OF ALBERTA ACT.
Fund	-	The Credit Union Stabilization Fund which at present is held and administered by THE CREDIT UNION STABILIZATION CORPORATION.
Member	-	a person who has the required number of Membership Shares, meets all other qualifications, and has been admitted as a member of the Credit Union.
Member Equity Account	-	a member's account that has been credited with the value of uninsured, allocated but undistributed Earnings.
Membership Shares	-	shares of a Credit Union referred to in Section 11 of the CREDIT UNION ACT.
Membership Share Savings Account	-	a member's account that has been credited with the value of his Membership Shares.
Minister	-	the Minister of Consumer and Corporate Affairs for the Province of Alberta.
RESERVE BOARD	-	the ALBERTA CREDIT UNION RESERVE BOARD, a statutory corporation which is proposed to replace the existing CREDIT UNION STABILIZATION CORPORATION.

Retained Earnings	-	all undistributed and unallocated earnings arising from the operations of a Credit Union.
Shareholder	-	a person who owns Equity Shares.
STABILIZATION CORPORATION	-	THE CREDIT UNION STABILIZATION CORPORATION, which is incorporated pursuant to the CREDIT UNION ACT.
Supervision	-	the situation where the STABILIZATION CORPORATION (RESERVE BOARD) imposes selective controls on the operations of a Credit Union and monitors the operations of the Credit Union.

LEGISLATION

COOPERATIVE CREDIT ASSOCIATIONS ACT	-	the Cooperative Credit Associations Act, being Chapter C-29, R.S.C. 1970, as amended.
CREDIT UNION ACT	-	the Credit Union Act of the Province of Alberta, being Chapter C-31, R.S.A. 1980, as amended.
CREDIT UNION AMENDMENT ACT, 1985	-	the Credit Union Amendment Act, 1985, enacted March 20, 1985
CREDIT UNION FEDERATION OF ALBERTA ACT	-	the Credit Union Federation of Alberta Act, being Chapter C-32, R.S.A. 1980, as amended.

A. GENERAL INTRODUCTION

1. Introduction and Terms of Reference for Minister's Task Force

2. Overview of Report

3. Summary of Organizational Recommendations

INTRODUCTION AND TERMS OF REFERENCE FOR MINISTER'S TASK FORCE

INTRODUCTION

As a result of the financial difficulties experienced by the Credit Unions in the Province of Alberta, the Minister of Consumer and Corporate Affairs established a Minister's Task Force on Credit Unions. This Report is the work of that Task Force.

The Terms of Reference of the Minister's Task Force (as attached) were established on September 13, 1984 and the first meeting of the Task Force took place on October 4, 1984.

The Task Force members decided that Credit Unions, the CREDIT UNION FEDERATION OF ALBERTA (the "FEDERATION"), THE CREDIT UNION STABILIZATION CORPORATION (the "STABILIZATION CORPORATION"), and the CANADIAN CO-OPERATIVE CREDIT SOCIETY ("C.C.C.S.") would be invited to make submissions to the Task Force and that Credit Union hearings would be held.

The Task Force members appointed by the Minister were:

Geoffrey J. Hook, Chairman	-	Consultant, formerly Chief Executive Officer of Vancouver City Savings Credit Union, and previously having served in other Credit Union senior management positions.
Gary G. Campbell, Vice-Chairman	-	Counsel with the law firm of Cormie Kennedy and Chairman and Chief Executive Officer of The Churchill Corporation.
Thomas E. Adams	-	President of Adams Management Consulting Services Ltd. and Vice-Chairman and Director of The Credit Union Stabilization Corporation
A. F. "Chip" Collins	-	Special Advisor to the Provincial Treasurer

Robert A. Wisener	-	Managing Partner of the MerBanco Group
D. Maloney, Consultant to the Task Force	-	Partner, Clarkson Gordon
Bruce F. Coombs, Research and Administration Officer to the Task Force	-	Lawyer with the firm of Snyder and Company

Submissions, or briefs, were received from thirty-six Credit Unions and from the FEDERATION, the STABILIZATION CORPORATION, and C.C.C.S. Hearings were held in both Edmonton and Calgary and were well attended by Credit Union representatives.

This Report presents comments and recommendations in accordance with the following Terms of Reference that follow.

MINISTER'S TASK FORCE ON CREDIT UNIONS
TERMS OF REFERENCE

TO RECOMMEND to the Minister of Consumer and Corporate Affairs, changes to legislation and regulation that will strengthen the Credit Union system in Alberta and to provide permanent equity capital that will ensure appropriate protection for depositors. In particular, the Task Force is to consider:

(a) ways, including permanent capital, to maintain the viability of Credit Unions under variable economic conditions;

(b) a mechanism to provide insurance for deposits with Credit Unions;

(c) an appropriate structure and role for both The Credit Union Stabilization Corporation and the Credit Union Federation of Alberta; and

(d) any other aspects of the legislative and regulatory environment that the Task Force finds important to the future viability of Credit Union operations, having regard to the protection of the interest of depositors.

The Task Force, in fulfilling its mandate, may undertake research and receive submissions from interested parties.

SEPTEMBER 1984

OVERVIEW OF REPORT

OVERVIEW OF REPORT

For nearly fifty years Credit Unions have played a useful role in the economic and financial structure of the Province of Alberta. During this period they have grown with the Province and its people. This fact has been brought home to the Task Force in numerous ways and has been a considerable factor in our deliberations.

The financial difficulties now being experienced by several Credit Unions are the result of a number of factors, the principal ones being a combination of structural weaknesses in the Credit Union system, a concentration of loans in certain commercial lending areas, and a volatile commercial and residential real estate market.

This Report is not proposing a new, grand design for the Provincial Credit Union system but, rather, a series of structural and regulatory changes which will provide a sound financial framework, and will protect depositors in Credit Unions.

The financial industry in Canada is currently undergoing

a period of substantial change with a good deal more expected in the near future. Recent proposals released by the Federal Government give some indication of the future shape of the regulatory framework for financial institutions under Federal jurisdiction, however, market forces must ultimately be allowed to guide the financial industry if it is to be competitive and dynamic.

Keeping in mind this evolutionary process and the need to provide the opportunity for Credit Unions to compete in this changing environment, the basic structure of the Credit Unions themselves has been left intact.

The major thrust of this Report lies in its proposals to establish improved financial standards and a process for regulating, monitoring, and supervising compliance with these standards by Credit Unions, and in its provisions for satisfactory protection of Credit Union depositors.

In developing these proposals, one of the concerns of the Task Force has been how to inject market discipline into Credit Union operations. In a normal commercial situation, failure of a business is the ultimate discipline, but the

failure of a Credit Union may mean the imposition by its regulators of Supervision or Administration of the institution, merger with another Credit Union, or, as a last resort, liquidation. The timely exercise of these alternatives is essential if market discipline is to be achieved.

Many of the recommendations of the Task Force are largely technical in nature with respect to Credit Union regulatory provisions, but all are part of a design that has financial soundness as a primary objective.

In its deliberations, the Task Force has taken careful note of the input provided in the briefs submitted by the Credit Unions, the FEDERATION, the STABILIZATION CORPORATION, and C.C.C.S.

There is common and overwhelming recognition by Credit Unions that they must learn from the mistakes of the past and in this regard they have provided a great deal of constructive and useful information. We thank them for it.

At the end of the Report we have included some comments

on the future, as we see it, for Credit Unions. No force can ensure the success of the Credit Union system in this Province except the Credit Unions themselves. It will not be an easy path and will require a great deal of dedication and purpose from a diverse group of individuals and organizations.

Our recommendations are based on the assumption that existing legislative provisions contained in the CREDIT UNION ACT that are not inconsistent with our recommendations will continue in effect. Of course, changes to regulatory provisions alone will not ensure the future of Credit Unions. This report is only intended to create the framework that will promote sound business practices by the Credit Unions.

The reader, in going through this Report, will recognize that it is arranged by type of organization (i.e., Credit Unions, the FEDERATION, the STABILIZATION CORPORATION, the ALBERTA DEPOSIT INSURANCE CORPORATION and Government). The breakdown by topics within the Credit Union section has been done to provide, in an organized manner, a review of each major financial or operating aspect of Credit Union functions.

SUMMARY OF ORGANIZATIONAL RECOMMENDATIONS

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1. That the ALBERTA CREDIT UNION RESERVE BOARD be the successor to the CREDIT UNION STABILIZATION CORPORATION and that legislation governing its operations be contained in enabling legislation to be known as the ALBERTA CREDIT UNION RESERVE BOARD ACT.

2. That the ALBERTA CREDIT UNION RESERVE BOARD be charged with the responsibility of the protection of the depositor by insuring, regulating, monitoring, and supervising Credit Unions.

3. That the ALBERTA DEPOSIT INSURANCE CORPORATION be established under enabling legislation to be known as the ALBERTA DEPOSIT INSURANCE CORPORATION ACT.

4. That the ALBERTA DEPOSIT INSURANCE CORPORATION be charged with the responsibility of entering into a re-insurance arrangement with the ALBERTA CREDIT UNION RESERVE BOARD to cover deposit insurance obligations of the ALBERTA CREDIT UNION RESERVE BOARD in the event of the inability or failure of the ALBERTA CREDIT UNION

RESERVE BOARD to meet those obligations. In addition, the ALBERTA DEPOSIT INSURANCE CORPORATION may also be charged with the responsibility of providing deposit insurance coverage for other qualifying financial institutions.

5. That a new CREDIT UNION ACT be enacted, which will incorporate all of the recommendations contained in this Report affecting Credit Unions and the CREDIT UNION FEDERATION OF ALBERTA.

It is our intent that the foregoing recommendations, when considered as a whole, will provide an organizational and operational framework that will strengthen the liquidity and financial structure of Credit Unions individually and as a system.

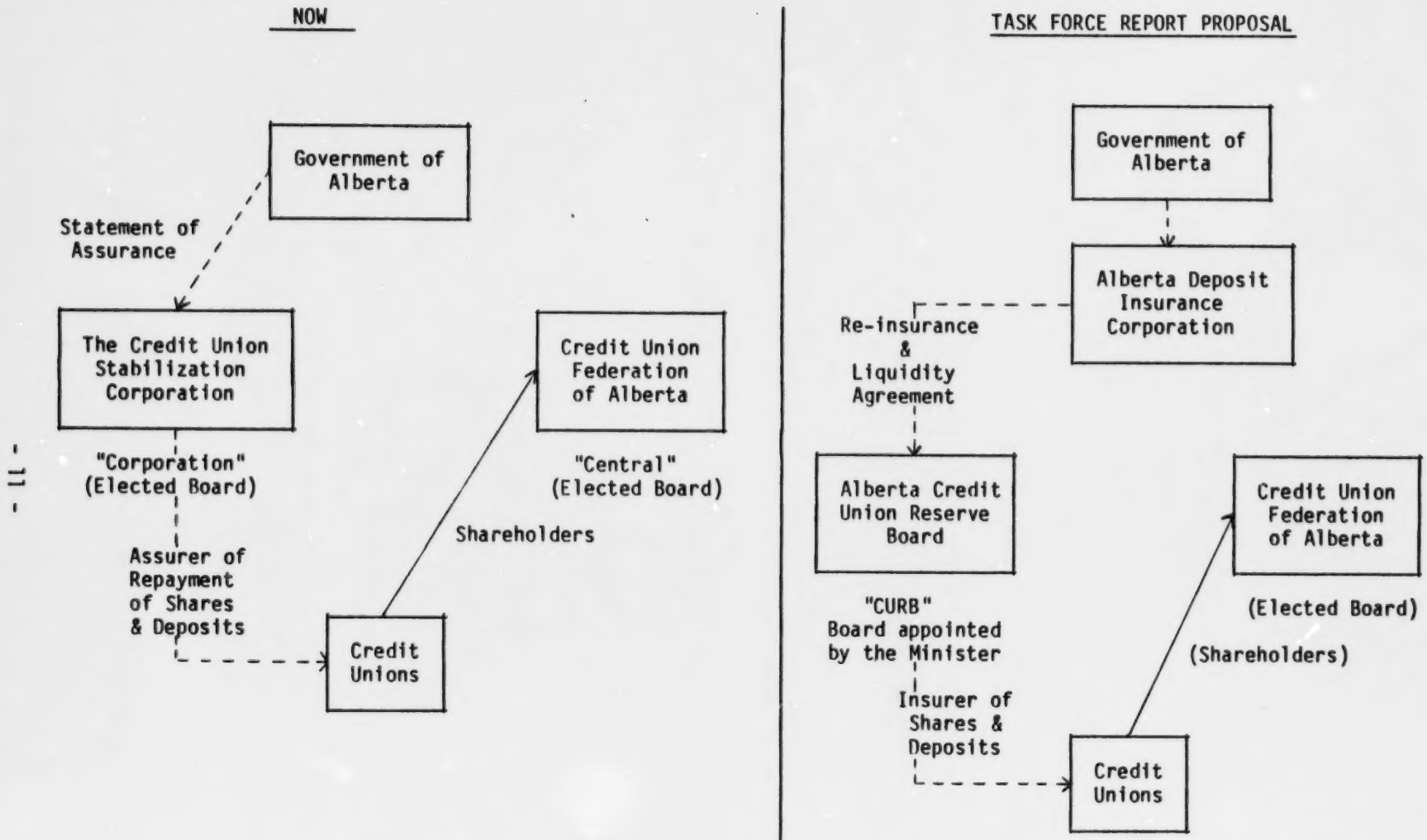


ILLUSTRATION OF ORGANIZATIONAL RECOMMENDATIONS

B. BACKGROUND

1. History of Credit Unions
2. Credit Union Operating Principles
3. The Present Role of Government

HISTORY OF
CREDIT UNIONS

HISTORY OF CREDIT UNIONS

EVOLUTION OF CREDIT UNIONS

A Credit Union is typically thought of as a form of co-operative enterprise that is owned by a group of people for their common financial benefit. The Credit Union concept was conceived in Germany during the late 1840's in a time of great famine when the need for financial cooperation was critical. As people recognized the need for some means to combat the usury which was flourishing among unscrupulous lenders, the movement evolved. In Canada, the concept was introduced by Alphonse Desjardins when he formed the first North American Credit Union at Levis, Quebec in 1900. Credit Unions spread to the United States in 1909 and to Alberta in 1938 during a time of economic depression.

The principal motivating force for the establishment of Credit Unions has always been the idea of "people helping people." This concept has led to the formation of groups of people with a common interest who pool their financial resources and, from such accumulated pools of savings, make low-cost loans to one another.

The Credit Union theory is based on four simple principles:

(a) ownership limited by a bond of association;
(b) democratic control, allowing one vote per member, regardless of the number of shares held;
(c) service to members, which is more important than profit; and
(d) volunteer work by officers.

Bonds of association typically have been either of a community nature or of an associational or occupational nature. Community or "open bond" Credit Unions serve people living or working in a defined area and as such are open to anyone, practically speaking. Associational or occupational Credit Unions are restricted to members of particular groups of people (e.g., employees of a specific company or members of a profession, church congregation, or trade union) and are called "closed bond."

Credit Unions deal only with their own members: membership is achieved by the purchase of a qualifying share or shares. They strive to provide quality service to the

members at the lowest possible cost and, in order to be competitive, attempt to pay interest on deposits and dividends on shares at rates comparable to those of other financial institutions.

HISTORY OF ALBERTA CREDIT UNIONS

In 1938 the first Alberta Credit Union was formed by a parish group. By 1962 the Province boasted 338 Credit Unions, many of which had sprung up in small communities not otherwise served by financial institutions. This period of rapid growth was followed by an intense period of consolidation. From 1963 to 1984, only 35 new Credit Unions were formed, with the last incorporation taking place in 1979. Since 1963, 161 dissolutions and 82 amalgamations have left 132 Credit Unions in existence. The reduction in numbers has been due primarily to the elimination of those Credit Unions that were not viable or were not adequately serving their members. In cases where two or more Credit Unions existed in proximity, amalgamation was the logical alternative to dissolution.

Of the 132 existing Credit Unions, 42 report deficit

positions and are under the Supervision of the STABILIZATION CORPORATION.

Assets in Alberta Credit Unions have grown steadily over time. Although it took forty years for the system to reach the first billion dollars in assets, in the last six years an additional 1.6 billion dollars have been added. The following information relates to the Credit Union system as at October 31, 1984, the Credit Union fiscal year end:

Membership		493,000
Employees		2,600
Number of Branches		282
Assets	$2.6	Billion
Liabilities	$2.8	Billion
Loans	$1.9	Billion
Investments	$278	Million
Shares	$133	Million
Deposits	$1.9	Billion

THE CREDIT UNION ACT

The first Alberta Credit Union was incorporated under the CREDIT UNION ACT, which took effect on March 31, 1938.

Although the legislation was permissive it gave the Government regulatory powers and it acted as the catalyst for Credit Union formation and activities. At the outset, the Government Credit Union branch also served as the support arm of the Credit Union movement in the Province.

The CREDIT UNION ACT has been amended several times, usually at the request of the system itself. However, no major rewriting of the CREDIT UNION ACT has ever occurred.

THE CREDIT UNION FEDERATION OF ALBERTA

Formation

In 1944, the CREDIT UNION LEAGUE OF ALBERTA was formed to promote and help organize Credit Unions, educate Credit Union officers and members, improve operating methods, and supply printed materials and forms to Credit Unions for

operational purposes. The ALBERTA CENTRAL CREDIT UNION was formed in 1947 to serve as a central investment and loan association and was financed by shares purchased by Credit Unions and cooperatives wishing to use its services.

The FEDERATION, commonly known as "Credit Union Central" or "Alberta Central" was incorporated on April 7, 1967 as a result of the amalgamation of the CREDIT UNION LEAGUE OF ALBERTA and the ALBERTA CENTRAL CREDIT UNION. Its operations are governed by the CREDIT UNION FEDERATION OF ALBERTA ACT, which came into force on May 7, 1969. In addition, the FEDERATION is registered under and must comply with the provisions of the Federal COOPERATIVE CREDIT ASSOCIATIONS ACT, which is administered by the Federal Department of Insurance.

Present Structure

The FEDERATION is a central organization consisting of member Credit Unions and co-operatives. Its directors are elected from and by delegates representing seven Credit Union chapters in the Province, which are based on geographic divisions, and one chapter comprised of all

co-operatives in the Province.

The members of each Credit Union within a chapter select delegates to represent their Credit Union at chapter meetings and FEDERATION annual meetings. The number of delegates allotted to each Credit Union depends on the size of membership of the particular Credit Union. The delegates from each chapter then elect from their number a FEDERATION director or directors. The number of directors elected from each chapter is related to the total number of members in Credit Unions within the chapter. The FEDERATION board of directors consists of fifteen members.

The FEDERATION delegates are expected to attend chapter meetings and the FEDERATION's annual meeting in order to present their Credit Unions' and regions' viewpoints for consideration. The delegates also serve as the communication links between the FEDERATION and local chapters and Credit Unions in regard to policy and objectives.

Function

The purpose of the FEDERATION has been stated to be to

aid and support the development of Credit Unions in the Province of Alberta. Its role is primarily to provide leadership, financial services, and management services to Credit Unions in order to enable them to assist their members in achieving economic security.

THE CREDIT UNION STABILIZATION CORPORATION

Formation

At the request of the Credit Unions in the Province, the STABILIZATION CORPORATION was incorporated on December 31, 1974. Its operations are governed by the provisions of the CREDIT UNION ACT.

Present Structure

Previously, of the five members of the board of directors, three were appointed by the FEDERATION, one was elected by the FEDERATION delegates, and one was appointed by the Minister. The CREDIT UNION AMENDMENT ACT changed the method of appointment so that all five members of the board of directors of the STABILIZATION CORPORATION are now

appointed by the Lieutenant Governor in Council.

Function

The primary function of the STABILIZATION CORPORATION has been to assure the solvency of individual Credit Unions and to protect the individual member's shares and deposits in the event a Credit Union is unable to honor its commitments. In doing so, the STABILIZATION CORPORATION protects the interests of the Credit Union members and the interests of the system as well as its public image. The desired result is public confidence in the system.

In order to maintain a fund (the "Fund") that helps Credit Unions in difficulty and provides protection of members' shares and deposits, the STABILIZATION CORPORATION levies annual assessments on each Credit Union.

To improve management in Credit Unions, the STABILIZATION CORPORATION has developed loss prevention programs and a human resource development program. In addition, it assumes supervisory responsibilities for Credit Unions it deems unsound.

When, in the opinion of the STABILIZATION CORPORATION, a Credit Union is following unsound business or financial practices or is conducting its affairs in a manner that threatens to impair the security of its members, the STABILIZATION CORPORATION may place a Credit Union under Supervision. Alternatively, the Director of Credit Unions can place a Credit Union under the Supervision of the STABILIZATION CORPORATION.

Specifically, the objectives of the STABILIZATION CORPORATION are to:

(a) protect and stabilize Credit Unions in difficulty;
(b) provide preventive services designed to avoid financial difficulties and recover losses incurred by Credit Unions;
(c) establish technical and advisory programs for the general welfare of Credit Unions;
(d) act as a liquidator of Credit Unions;
(e) supervise the affairs of Credit Unions under Supervision;
(f) purchase assets and assume liabilities of Credit

Unions in the process of dissolution; and

(g) assist in amalgamations when requested.

CANADIAN CO-OPERATIVE CREDIT SOCIETY

Formation

Each Province has a body equivalent to the FEDERATION. These Centrals are members of the C.C.C.S., which is the successor to the National Association of Canadian Credit Unions ("N.A.C.C.U."). Incorporated in 1958, the N.A.C.C.U. provided Federal representation for member organizations and co-ordinated activities of the Canadian Credit Union system.

Function

The C.C.C.S. acts as a spokesman for Canadian Credit Unions at the Federal level when making representations to Government and inter-Provincial organizations. It also provides a forum for the interchange of information by Provincial Centrals and co-ordinates specific programs and activities on a national basis.

Most importantly, the C.C.C.S. is the central financial house for the Credit Union Centrals in Canada and is governed by the Federal CO-OPERATIVE CREDIT ASSOCIATIONS ACT. It acts as a short-term lender for Credit Union Centrals mainly for liquidity purposes.

NOTE: In Preparing this section of the Report, major reference was made to Alberta Credit Unions - Reference Book, a publication of the Communications Division of Alberta Central.

CREDIT UNION OPERATING PRINCIPLES

CREDIT UNION OPERATING PRINCIPLES

The following is derived from the official Statement of Credit Union Operating Principles. The World Council of Credit Unions (WCOCU) developed this Statement in the spirit of co-operation, emphasizing the central values of co-operation - equality, equity, and mutual self-help.

OWNERSHIP

Credit Unions are owned by their members. Membership is voluntary and open to all people in the community, regardless of race, nationality, sex, religion, or political affiliation.

CONTROL

Members participate in decisions affecting their Credit Union by exercising their democratic right to vote (one member, one vote). Officers who are elected to represent members' interests are accountable to the membership for their decisions and actions.

SERVICES

Credit Unions provide members with services designed to help them improve their economic well-being.

DISTRIBUTION TO MEMBERS

Credit Unions pay a fair and appropriate rate of interest on members' deposits. Surplus accumulated during the year may be distributed among members or retained for use in service development.

FINANCIAL STABILITY

Credit Unions maintain reserves and employ internal controls that ensure continuous provision of services to members.

EDUCATION

Credit Unions promote the personal growth of individuals by educating their members, elected officials, employees, and the general public in the application of

co-operative principles and the prudent management of money.

COOPERATION

Credit Unions are part of a co-operative network that includes other Credit Union and co-operative organizations at the local, Provincial, national, and international levels. Cooperation among these organizations is aimed at better serving the interests of members and their communities.

SOCIAL RESPONSIBILITY

Credit Unions actively encourage individual and social development by supporting efforts to improve personal well-being, to realize human potential, and to uphold principles of social justice in the community.

NOTE: The foregoing operating principles are found in the 1984 Annual Report of C.C.C.S.

THE PRESENT ROLE OF GOVERNMENT

THE PRESENT ROLE OF GOVERNMENT

The following is intended to outline briefly the current role of the Government of Alberta with respect to incorporation and regulation of Credit Unions operating within Alberta.

OBJECTIVE OF LEGISLATION

The general purpose of current Government regulation of financial institutions in the Province of Alberta, as well as in most other jurisdictions, is to protect the public against the insolvency of financial institutions and unfair treatment by such institutions.

In addition, Government regulation and supervision of financial institutions attempt to enchance the stability of the financial market and promote the growth of the economy in the Province.

AUTHORITY FOR PROVINCIAL JURISDICTION

The Province of Alberta has enacted legislation and

supplementary regulations governing financial institutions (except banks) under constitutional authority to legislate in matters relating to property and civil rights within the Province. These matters include contracts dealing with property and the regulation of business, trades, and the professions.

THE FOCUS OF REGULATION

The regulatory system of financial institutions in Alberta, and indeed in most Canadian jurisdictions, is based on segregation of financial functions. Except for Credit Unions, all financial institutions (including trust companies, insurance companies, and investment contract companies) operating in the Province can be incorporated under either Federal or Provincial legislation; however, each must be registered or licensed under Provincial legislation to operate within the province and is subject to Provincial supervision. Banks are subject only to Federal legislation.

THE SYSTEM

The following schema is a simplified breakdown of the Department of Consumer and Corporate Affairs and reflects only those parts of the department having actual involvement with the Credit Union system.

According to Section 4 of the DEPARTMENT OF CONSUMER AND CORPORATE AFFAIRS ACT, the Minister:

(a) is responsible for development and implementation of policies, programs, services and administrative procedures in matter pertaining to consumer protection;

(b) may cause to be investigated complaints of practices that:

(i) are in contravention of Acts for the protection of consumers;

(ii) appear to be detrimental either to a business or to a consumer; or

(iii) are unethical business practices;

(c) may compile, study, and assess information directly or indirectly related to matters pertaining to consumer protection in order to carry out his functions and responsibilities under this or any other Act and with a view to providing such information, or the results of such study and assessment, to departments of the Government, government agencies, or the public;

(d) may arrange for and assist in the representation of and on behalf of consumers before any tribunal whose decision or other action may materially affect the interests of consumers;

(e) may do such other things as he considers necessary for the furtherance of consumer protection.

The Deputy Minister is the chief administrative officer of the department and is responsible for the planning, co-ordination, and administration of departmental functions

including education and protection of consumers and licensing, monitoring, supervising, and regulating specified activities of the marketplace.

The Executive Director of Financial Institutions is responsible for the monitoring and control of Provincial financial institutions including Credit Unions, insurance companies, and trust companies.

The Director of Credit Unions is responsible for the administration and supervision of Credit Unions. He ensures that Credit Unions are operating in full compliance with the governing laws, that they are financially sound, and that their management is at a level of competency to guarantee their continued solvency for the protection and safety of the deposits of members. He is directly involved in reviewing with the STABILIZATION CORPORATION applications for incorporation; receiving and reviewing annual returns and audited financial statements and compiling statistical reports thereon; examining the affairs of each Credit Unions annually; acting as the liquidator of a Credit Union, if required; and advising the STABILIZATION CORPORATION when,

in his opinion, a Credit Union is operating in an unsound manner.

Should the Director of Credit Unions require, the Senior Auditor and his staff of six auditors (who are not otherwise involved with Credit Unions) can be called upon to perform audits on Credit Unions in accordance with the provisions set forth in the CREDIT UNION ACT. In the normal course, however, annual examinations of individual Credit Unions are conducted by eighteen government examiners (six being located in each of Edmonton and Calgary and two being located in each of Red Deer, Lethbridge, and Peace River). These examiners operate out of regional offices under the supervision of Regional Officers, who in turn report to the Executive Director of Regional Services. They perform examinations in accordance with requirements and procedures set down by the Director of Credit Unions and report to the Director of Credit Unions with the examination results.

The Executive Director of Regional Services performs an administrative role in co-ordinating and facilitating the organization of personnel and services in the regional

offices of Consumer and Corporate Affairs. His duties include meeting the requirements of the Director of Credit Unions with respect of Credit Union examinations.

INCORPORATION AND REGULATION OF CREDIT UNIONS

A Credit Union can be incorporated only under the provisions of the CREDIT UNION ACT, which describes its purposes as follows:

The objects of a credit union are the promotion of co-operative enterprises among its members and the creation of a source of credit for its members, at legitimate rates of interest, exclusively for provident, productive and merchandising purposes (THE CREDIT UNION ACT, Section 19(1)).

Pursuant to the CREDIT UNION ACT, the Director of Credit Unions plays a role in the incorporation of Credit Unions. The CREDIT UNION ACT describes this role as follows:

The Director shall

(a) examine all applications of credit unions for incorporation under this Act, inquire into the conditions under which a proposed credit union will operate, and confer with and advise the promoters of a credit union on its formation and organization, and having regard to the results of the inquiries made, approve or refuse to approve any applications for incorporation;

(b) confer with and advise a person interested in a credit union and its directors with reference to activities of the union and generally encourage and develop the activities of the union (THE CREDIT UNION ACT, Section 2(2)(a) and (b)).

The application for incorporation is made in the prescribed form of a memorandum of association that must be signed by at least ten persons and is subject to the approval of both the Director of Credit Unions and the board of directors of the STABILIZATION CORPORATION.

Once incorporated, Credit Unions in Alberta are

regulated under the provisions of the CREDIT UNION ACT and are supervised by the Director of Credit Unions and the STABILIZATION CORPORATION mainly through the following:

(a) a system of regular reporting to their financial affairs;

(b) maintenance of certain minimum statutory reserves and liquidity requirements;

(c) examination by government examiners and audits by government auditors or external auditors;

(d) limitations and restrictions on loans and investments by Credit Unions; and

(e) the processes of reorganization, Supervision, Administration, amalgamation, dissolution, winding-up, or liquidation ordered at the instance of the Director of Credit Unions or the STABILIZATION CORPORATION in the event that the affairs of the Credit Union are being mismanaged or

conducted in an unsound manner.

CONCLUSION

Financial institutions in Alberta, as in all Canadian Provinces, are operating within a complex regulatory framework. In view of the substantial amount of funds that they borrow from and handle on behalf of the general public they bear an important burden of public trust. Their intermediary role in the flow of money from savings to investment places them in a position of influence over the allocation of resources in the Province's economy and indeed over the efficient operation of the entire economy of Alberta.

The complex regulatory structure of financial institutions has followed the historical development of the Canadian financial system. Each type of financial institution was established for a specific purpose and legislation was designed t regulate each type of

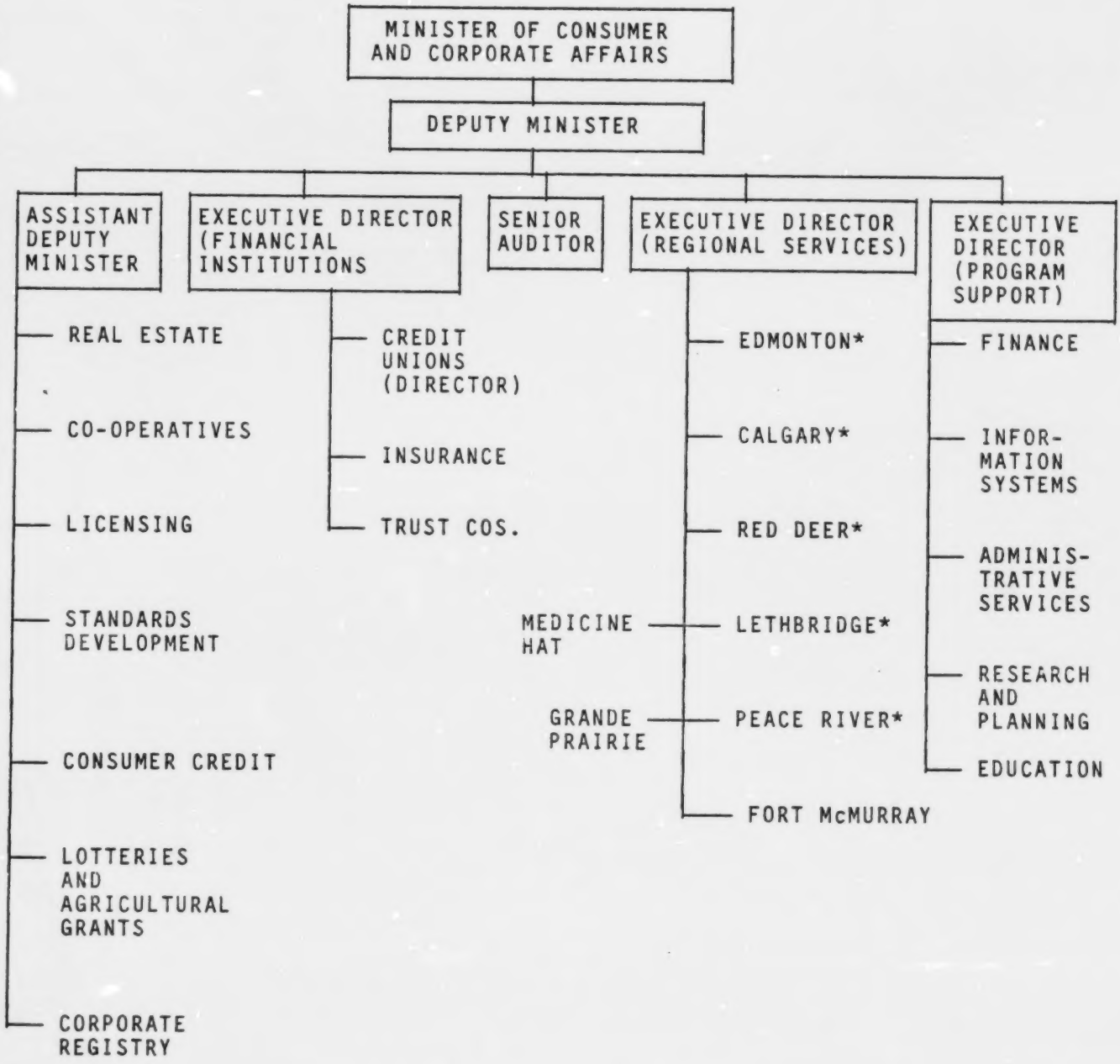
institution.

Today, the entire Canadian financial system and, for that matter, the North American financial system are experiencing rapid technological and operational changes that are bringing pressure to bear upon regulators for corresponding changes in the financial regulatory structure.

The pressure on the regulators is clear and is reflected in the urgent demands by the financial services industry fro a review of the financial regulatory system. Although the need for change is obvious, there is no clear direction as to the type or extent of legislative revision that is desirable from both the economical and the public interest points of view. Co-ordination of legislative policy and co-operation among the various Governments involved in the regulation of financial institutions in Canada seem to be of paramount importance in determining the desirable type and

extent of legislative changes in the financial regulatory structure.

THE ROLE OF GOVERNMENT



*Credit Union examiners operate out of regional Consumer and Corporate Affairs offices in these centers.

C. CREDIT UNION OPERATIONS IN ALBERTA

The recommendations of the Task Force with respect to Credit Union legislation are presented in the following sixteen sections.

For ease of reference they are as follows:

1. Incorporation
2. Objects and Powers
3. Directors
4. Liquidity
5. Investments
6. Lending
7. Allowance for Losses and Writedowns
8. Deposits
9. Borrowing
10. Members' Equity (Capital, Retained Earnings, and Dividends)
11. Audits/Auditors
12. Financial Reporting
13. Reorganization
14. Self-dealing and Conflicts of Interest
15. Offences and Penalties
16. Statistical Information

INCORPORATION

INCORPORATION

Financial institutions, particularly those that take deposits, are generally required to meet rigorous criteria and specific financial standards such as minimum equity capital requirements.

Initial risk capital requirements of $25,000 should be sufficient to provide a minimum equity base (5%) that will give a new Credit Union the ability to build assets to the $500,000.00 level.

RECOMMENDATIONS

1. That the minimum number of individuals required to incorporate a Credit Union be increased from ten to one hundred.

2. That the incorporating Shareholders subscribe collectively for at least $25,000 of non-insured shares of the Credit Union.

3. That the incorporating shares be redeemable either at the option of the Credit Union or its members provided that:

   (a) the redemption does not reduce the Credit Union's Equity below $25,000 and
   (b) the Credit Union meets all other minimum Equity requirements.

4. That the bond of association, either open or closed, be stated in the memorandum of association and, if closed, be clearly defined.

5. That the Director of Credit Unions, with the approval of the RESERVE BOARD, may approve an application for incorporation.

6. That the RESERVE BOARD may request information, in such form as may be prescribed by it, from prospective incorporating Shareholders.

OBJECTS AND POWERS

OBJECTS AND POWERS

The objects of a Credit Union, as stated in the CREDIT UNION ACT, are the promotion of co-operative enterprise among members and the creation of a source of credit for members at legitimate rates of interest. Credit is granted exclusively for provident, productive, and merchandising purposes.

For the purpose of carrying out its objects, a Credit Union's powers include:

(a) to receive money from its members or depositors as deposits, as payment for shares, and as payment for the purchase of term annuities;

(b) to borrow;

(c) to make loans and take and realize on security;

(d) to make investments including depositing its funds

in a bank or other institution approved by the Director of Credit Unions;

(e) to negotiate various instruments; and

(f) to "do all other acts and things that are incidental or conducive to or consequential in the attainment of its objects" (THE CREDIT UNION ACT, Section 19(2)(k)).

Items (a) and (b) above provide a Credit Union with the means of obtaining funds. Items (c) and (d) provide a Credit Union with the authority to use the funds; however, they may only be used for the purposes specified. Items (e) and (f) seem to relate to operations (i.e., they enhance the ability of a Credit Union to conduct its business).

A Credit Union may also, for its own purposes, acquire or lease land. The value of such land shall not exceed 10% of the Credit Union's assets unless the Director of Credit Unions authorizes otherwise.

RECOMMENDATIONS

1. That Credit Unions become more conscientious in observing the powers given to them in the CREDIT UNION ACT and conduct their operations and activities accordingly.

2. That a Credit Union be able to sell all or a portion of its assets, or purchase all or a portion of another Credit Union's assets and, in satisfaction of the purchase price, give or assume, as the case may be, all or a portion of the vendor Credit Union's liabilities.

3. That a Credit Union have the power to pay a dividend.

4. That no Credit Union may become a member of, or invest in the shares of, another Credit Union, except the FEDERATION.

5. That the only non-members (depositors) that a Credit Union may accept money or deposits from, or make loans to, are:

(a) Co-operative Trust Company of Canada;

(b) a municipal corporation or its agents;

(c) the Government of Canada or its agents; and

(d) the Government of Alberta or its agents.

6. That the receipt of money by a Credit Union from members or depositors be restricted to:

(a) money received on shares and

(b) money received as a deposit - either on demand or for a fixed term.

7. That a Credit Union have the power to invest in any investments authorized by the CREDIT UNION ACT.

8. That the amount allowed to be paid to an estate be increased from $2,500 to $5,000.

9. That a Credit Union no longer have the power to "do all

other acts and things that are incidental or conducive to or consequential on the attainment of its objects."

10. That Credit Unions be given the power to assess service charges for services rendered to members and depositors and to charge membership fees.

DIRECTORS

DIRECTORS

The present CREDIT UNION ACT lacks a complete treatment of the duties, responsibilities, qualifications, and expected conduct of Credit Union directors. We believe these matters should be dealt with by the CREDIT UNION ACT on a more complete and comprehensive basis.

RECOMMENDATIONS

1. That the following individuals be disqualified from being or becoming a director of a Credit Union:

   (a) anyone less than eighteen years of age;

   (b) anyone who is a dependent adult or of unsound mind;

   (c) any individual who has the status of a bankrupt;

   (d) any individual who is not a member;

   (e) any full-time employee of the Credit Union, the RESERVE BOARD, or the FEDERATION;

   (f) any auditor or solicitor of the Credit Union;

   (g) any public servant concerned by his duties with the affairs of the Credit Union;

   (h) any individual who has been convicted of an offence involving fraud within a prescribed period of time;

   (i) any individual who has a loan in arrears in excess of six months;

(j) any individual who has been absent from three consecutive board meetings without consent; and

(k) any director who has committed an offence under the CREDIT UNION ACT.

2. That meetings be allowed by telephone or other communication devices.

3. That resolutions may be passed other than at a meeting if consented to in writing by all directors.

4. That directors, officers, and committee members may be reimbursed for expenses.

5. That remuneration of directors, officers, and committee members be determined by the directors and approved by the members in general meeting.

6. That no remuneration arrangements be made on a basis that would relate to the profits or an increase in the assets of the Credit Union.

7. That the members may remove a director before the end of his term of office. The decision must be reached by a two-thirds majority of those members present at the

annual meeting or at a special meeting called for that purpose.

8. That the following duties of a director of a Credit Union be added to those already existing in the CREDIT UNION ACT:

(a) determine all policies;

(b) determine terms and conditions respecting withdrawal of deposits;

(c) determine distribution of income and earnings to dividends or rebates of interest;

(d) designate the depository for Credit Union funds and who is authorized to sign on behalf of the Credit Union;

(e) approve and recommend to the members all amendments to by-laws;

(f) appoint temporary replacements for absent or disabled officers;

(g) establish lines of credit with the FEDERATION;

(h) charge, mortgage, hypothecate, etc. any of the property of the Credit Union to secure its debt obligations;

(i) act honestly and in good faith with a view to the best interests of the Credit Union and exercise the care, diligence, and skill that a reasonably prudent person would exercise in comparable circumstances;

(j) examine all financial reports, statements and budgets and report annually to the members respecting the condition of the Credit Union and the work of the directors;

(k) consider and take appropriate action on any report resulting from examinations conducted by the Director of Credit Unions, the RESERVE BOARD, or its auditor; and

(l) provide each new director with a memorandum or brochure detailing the duties and obligations of a director.

9. That the directors, officers, and committee members of a Credit Union be required to act honestly, in good faith, and in the best interests of the Credit Union and exercise the degree of care, diligence, and skill that a reasonably prudent person would exercise in comparable circumstances.

10. That, if a loan or investment is made in contravention of the CREDIT UNION ACT, any director, committee member, or officer who made or assented to the loan or investment be jointly and severally liable up to the amount of the loan or investment, with interest, to the Credit Union and to its creditors and Shareholders, and be guilty of an offence, unless otherwise excused by the Court.

LIQUIDITY

LIQUIDITY

Liquidity can be defined as the capacity to meet financial obligations as they become due.

Although Credit Unions operate as individual institutions, the following recommendations have been developed on the basis that Credit Unions collectively form a financial system.

At present, the CREDIT UNION ACT states that Credit Unions must maintain an amount equal to 10% of assets in qualifying investments as a buffer against withdrawals from deposits and share accounts of members. These investments consist of:

(a) funds on deposit in a chartered bank or other institution approved by the Director of Credit Unions (including cash on hand); or

(b) paid-up shares of the FEDERATION or any Credit Union approved by the Director of Credit Unions; or

(c) investments authorized by the TRUSTEE ACT.

The 10% requirement must always be maintained and cannot be used for normal liquidity purposes. Therefore, it is really the excess over statutory liquidity that provides true operating liquidity.

Credit Unions have been borrowing to fund their statutory liquidity requirements, thus rendering the statutory liquidity requirements ineffective.

RECOMMENDATIONS

1. That the term "statutory liquidity" not be used in the CREDIT UNION ACT.

2. That the liquidity calculation be based on liabilities rather than assets (i.e. 10% of shares, deposits, and borrowings of the Credit Union).

3. That the 10% liquidity requirement be maintained by Credit Unions in qualifying investments (i.e., "statutory investments").

4. That "statutory investments" be unencumbered cash on hand; demand deposits with Schedule "A" banks, Province of Alberta Treasury Branches, and the FEDERATION; shares of the FEDERATION; Province of Alberta and Government of Canada securities; and securities guaranteed by the Province of Alberta or the Government of Canada.

5. That every Credit Union be required to establish a line of credit with the FEDERATION for liquidity purposes. The minimum line of credit will be 3% of a Credit Union's liabilities. A Credit Union will establish this line of credit by depositing with the FEDERATION an amount equal to the minimum line of credit required. A Credit Union's investment in shares of the FEDERATION will qualify as a deposit in the FEDERATION. The established line of credit forms part of, and is not in addition to, the "statutory investments" requirement.

6. That the minimum line of credit may be increased if required by the RESERVE BOARD and must be established by the Credit Union with the FEDERATION within such period of time as is specified by the RESERVE BOARD.

7. That a "liquidity report" in a form determined by the the RESERVE BOARD be prepared by each Credit Union and be submitted to the FEDERATION on not less than a monthly basis. The FEDERATION may determine a greater frequency for these reports.

8. That a "liquidity report" on Credit Unions be prepared by the FEDERATICN in a form determined by the RESERVE BOARD on not less than a monthly basis and be provided to the RESERVE BOARD and to the Director of Credit Unions, if he so requests. The RESERVE BOARD may determine a greater frequency for this report.

INVESTMENTS

INVESTMENTS

Investments are an alternative to the making of loans and, as such, represent another way of diversifying the assets of the Credit Union, both for asset/liability management purposes and for risk management.

The provisions of the CREDIT UNION ACT should reflect the need for diversification and liquidity.

RECOMMENDATIONS

1. That funds on deposit with the FEDERATION be included in the definition of authorized investments and as investments that qualify as "statutory investments" (i.e., liquidity).

2. That the TRUSTEE ACT investments be enumerated in the CREDIT UNION ACT and reference to the TRUSTEE ACT be deleted.

3. That the percentage of shares of any company held by a Credit Union be restricted to 10% of the common shares

issued and 10% of the total shares issued by such company.

4. That the investment portfolio mix be restricted so that no more than 1% of the Credit Union's deposits and Equity shall be invested in any one corporation and no more than one-half of that investment shall be common shares of that corporation. This provision shall not apply to shares issued by the FEDERATION, the RESERVE BOARD, or any subsidiaries thereof.

5. That a Credit Union shall not lend directly to, deposit money in, or invest in either Membership Shares or Equity Shares of another Credit Union.

6. That a Credit Union be prohibited from making any investments other than statutory investments until it has established its minimum statutory investment level.

7. That the RESERVE BOARD be provided with authority to order a Credit Union to dispose of and realize on any of its investments not made or held in accordance with the CREDIT UNION ACT, and that the Credit Union, within a

prescribed time after receiving the order, shall dispose of and realize on such investments. If the amount realized therefrom falls below the amount paid by the Credit Union for the investments or if the investments cannot be disposed of, the directors of the Credit Union are jointly and severally liable for payment of any deficiency to the Credit Union.

8. That the value of real property in which a Credit Union has an interest shall be limited to:

(a) 2% of the Credit Union's Equity and deposits in any one parcel of land and the improvements thereon and

(b) 5% of the Credit Union's Equity and deposits in total.

NOTE: Recommendation 8 does not apply to real property acquired through foreclosure or to the disposition of real property acquired through foreclosure.

LENDING

LENDING

The major asset of a Credit Union is its loan portfolio, which consists of loans (secured or unsecured) of a personal or a commercial nature.

One of the major strategies that must be incorporated into any lending policy is diversification of the loan portfolio by type, borrower, and geographic location.

The study entitled "Asset Diversification" conducted by a committee of Credit Union representatives identifies the complex group of factors that go into a well-balanced, diversified loan portfolio.

RECOMMENDATIONS

1. That restrictions be provided on the mix, size, and types of loans a Credit Union may make; that the various types of loans be defined; and that authority be vested in the RESERVE BOARD to issue guidelines under appropriate Regulations.

2. That no business or commercial loans or loan of any other nature exceeding $125,000.00 be made to members of a Credit Union's board of directors or the Credit Union's solicitor, auditor, appraiser, or other professional advisors without the express, prior written consent of the Special Loans Committee of the RESERVE BOARD.

3. That a definition of fair market value be provided.

4. That, except where authorized by the RESERVE BOARD, new loans or renewals of loans be prohibited when:

   (a) the Equity of a Credit Union falls below a minimum amount as determined by the RESERVE BOARD or

   (b) its statutory investment requirements are not being met.

5. That the existing provision in the CREDIT UNION ACT allowing loans to be repaid at any time be repealed.

6. That the RESERVE BOARD be given authority to order a

Credit Union to call any loan it has made that is not authorized by the CREDIT UNION ACT; and that the Credit Union, within a period of time after receiving such direction, call the loan, if possible; and that, if the full amount of the loan is not repaid within that time, the members of the credit committee, any loan officer, or any other person who authorized or approved the loan are jointly and severally liable for the payment to the Credit Union of any deficiency upon the maturity of the loan.

7. That no loan or "connected loans" of a Credit Union be made if the amount of that loan or the "connected loans" would then exceed 1% of liabilities. This does not apply to Credit Unions with less than $1 million in liabilities, which must follow guidelines established by the RESERVE BOARD.

8. That a Credit Union shall not make a commercial loan if the amount of that commercial loan would cause the aggregate of its outstanding commercial loans to exceed 25% of its loan portfolio.

9. That a Credit Union whose commercial loans now exceed 25% of its total loan portfolio will be required to make suitable arrangements with the RESERVE BOARD for a transitional period within which such Credit Union will be required to reduce its commercial loans to 25% or less of its total loan portfolio.

ALLOWANCE FOR LOSSES AND WRITEDOWNS

ALLOWANCE FOR LOSSES AND WRITEDOWNS

Until 1983, the CREDIT UNION ACT specified a formula determination of the amount of loan loss exposure that should be recorded in a Credit Union's books and records. In addition, the CREDIT UNION ACT provided that this amount be recorded as a Reserve, designated as the Guarantee Reserve Fund. Any increase to this Reserve was effected through an appropriation of earnings, which did not necessitate disclosure of these potential losses on a Credit Union's income statement.

This Reserve account has been used to reflect not only the level of losses on loans that might be incurred but has also been regarded as forming part of a Credit Union's Equity.

In 1983, the CREDIT UNION ACT was amended to provide two additional methods to record and report potential loan losses. Both of these methods provided for a loan by loan evaluation with disclosure of potential loan losses being made on the Credit Union's income statement using a five-year rolling average.

We conclude that:

(a) the term "Reserve" is inappropriate in this instance;

(b) the CREDIT UNION ACT provides too many methods of recording potential loan losses;

(c) separate accounts are required for recording these potential losses and a Credit Union's Equity; and

(d) the five-year rolling average method of recording loan losses is inappropriate at this time.

We concur with the recommendations contained in the research study "Financial Reporting for Credit Unions" prepared by the Canadian Institute of Chartered Accountants (the "C.I.C.A.").

RECOMMENDATIONS

1. That a Credit Union determine on an annual basis the amount of possible losses on loans and writedowns on

foreclosed properties.

2. That the losses referred to in (1) above be recorded in the books and records of the Credit Union and on its balance sheet as an "Allowance for loan losses" and as an "Allowance for writedown on foreclosed properties." The net changes in the "Allowance" accounts are to be charged or credited to the income statement of the Credit Union.

3. That a Regulation be enacted to the effect that all loans on which principal or interest is overdue for ninety days or more must be categorized in the books and records of the Credit Union as "Non-producing Loans" and be reflected on the Credit Union's financial statements as such. Any other loans less than ninety days in arrears on principal or interest shall also be classified as "Non-Producing Loans" if the facts, at the time, support such a classification.

4. That interest should not be accrued on non-producing loans for accounting and reporting purposes.

5. That only after a uniform financial reporting system has been in effect for five years should consideration be given to using a rolling average formula for recording losses and writedowns.

DEPOSITS

DEPOSITS

Financial institutions now offer a wide range of deposit services and as market competition intensifies, so will the variety and sophistication of deposit products.

Deposit-taking financial institutions have the privilege of accepting deposits. In the case of Credit Unions, deposits can be made by members and other specified persons. Each Credit Union must accept responsibility for prudent management of these funds. Deposits by members are the primary source of funds for financing loans to members, investments, and purchasing fixed assets.

The safety and protection of the members' deposits are at the forefront of the regulation of Credit Unions.

RECOMMENDATIONS

1. That a definition of a deposit be included in the CREDIT UNION ACT. A deposit may be defined as funds held for which no security or other priority has been given by the Credit Union.

2. That, in order to protect depositors by minimizing the risk of loss, the RESERVE BOARD must make a report to the Director of Credit Unions and must place a Credit Union under Supervision when it determines that the Credit Union is or is about to become insolvent. On receiving such a report, the Director of Credit Unions may take such action as he deems appropriate, including restricting the deposit-taking power of the Credit Union.

   A Credit Union will be deemed insolvent when its liabilities exceed the value of its assets determined on the basis of current market value.

3. That a provision be included to the effect that the operations of an insolvent Credit Union must be funded monthly by the RESERVE BOARD. Further, no dividends other than dividends on Membership Share Savings Accounts may be paid by a Credit Union while it is insolvent or if payment would cause it to become insolvent. Individual directors of Credit Unions shall be liable for any such dividends paid in contravention of this provision.

4. That the parties involved, the debtor/creditor relationship, and the trustee/beneficiary relationship created by a deposit into an RRSP account be clarified.

5. That the amount of any one deposit or connected deposit in excess of 1% of liabilities be invested in statutory investments (except in the case of Credit Unions with less than $1 million dollars in liabilities, which must follow guidelines established by the RESERVE BOARD).

BORROWING

BORROWING

Originally, Credit Unions made loans to their members only from those funds received on deposit from other members. Surplus deposits were held in investments until such time as they were needed. Credit Unions with a seasonal or cyclical demand that required funds in excess of the supply of funds from deposits had to decline loan applications.

With the establishment of the FEDERATION, the flow of funds between Credit Unions was facilitated and fluctuations of a seasonal and short-term nature were easily accommodated. However, when some Credit Unions began to experience extended periods of growth, the demand for loans continually outstripped the supply available through the slower growth of deposits. During this period, borrowing by Credit Unions became entrenched as a source of funding loans.

When arranging loans to Credit Unions, the FEDERATION took security by charging each Credit Union's assets and undertakings. Such charges ranked in priority to the claims

of depositors and also introduced a situation that had a major impact on individual Credit Unions and overall system liquidity.

Normal market forces and constraints were not at work in the decision by Credit Unions to borrow and pledge assets as their member depositors relied upon the 100% guarantee of the repayment of their shares and deposits by the STABILIZATION CORPORATION.

As lender, the FEDERATION allowed such borrowings, providing the legal requirements as set out in the CREDIT UNION ACT and the Regulations were met. Normal lending judgment in assessing the borrower was not used sufficiently by the FEDERATION. As a result, loans were made that any prudent lender, considering the borrower's position, would have declined.

It is desirable and constructive for the Credit Union to fund its own lending activities primarily from deposits of its own members. Borrowing from the FEDERATION should be restricted to taking care of daily fluctuations in regular clearing activities and cyclical or seasonal needs.

RECOMMENDATIONS

1. That a definition of borrowing be included in the CREDIT UNION ACT. Borrowing may be defined as granting to a lender security or a priority to assets as consideration for advancing funds; however, on financing the acquisition of a fixed asset, the asset being acquired may be pledged as security for the repayment of the financing. In addition, the replacement of existing security by new security, provided that the new security secures the same amount of indebtedness outstanding at the time, will not be considered as borrowing.

2. That Credit Unions may only borrow from the FEDERATION, unless prior approval is granted by the RESERVE BOARD.

3. That, if approved by its board of directors, a Credit Union may borrow an amount not exceeding 10% of its deposits and Equity only from the FEDERATION for the following purposes:

   (a) daily for cheque-clearing purposes; however, such borrowing must be repaid daily or

(b) to facilitate the matching of a Credit Union's excess deposits with another Credit Union's unfunded loan demands.

MEMBERS' EQUITY

(Capital, Retained Earnings,

and Dividends)

MEMBERS' EQUITY

(Capital, Retained Earnings, and Dividends)

In a number of studies conducted by the Credit Union system there is recognition by Credit Unions that a level of permanent Equity is required in an amount equal to 5% of liabilities. All Credit Unions in the Province should adopt a common approach that would lend itself to the overall marketing and communication of the need for capital to the membership.

Because of the unique co-operative form of ownership of Credit Unions, some of the conventional methods of raising Equity through share capital are not available.

Several Provinces require Credit Unions to provide a compulsory allocation from earnings each year to Retained Earnings. We believe this is necessary in order, over a period of time, to build Retained Earnings systematically to a desired level or ratio.

The recommendations are designed to provide adequate Retained Earnings as a first line of defence against losses

and sufficient permanent Equity to strengthen the financial soundness of the Credit Union.

RECOMMENDATIONS

1. That Credit Unions adopt a goal of building Equity to a level of 5% of liabilities.

2. That Equity Shares or Member Equity Accounts be established by all Credit Unions.

3. That, as a condition of membership, each adult member be required to hold not less than $100.00 in Equity Shares or in a Member Equity Account.

   This condition may be introduced for existing members over a four-year period at the rate of $25.00 a year.

   New members would subscribe for $100.00 in Equity Shares or Member Equity Accounts with a minimum cash payment of $25.00, with the balance payable over a maximum period of three years.

4. That junior and senior members each be required to hold only one Equity Share or at least $5.00 in a Member Equity Account. A junior is an individual who does not qualify as an adult. A senior is an individual over sixty five years of age.

5. That, subject to its financial condition and other restrictions, the amount of a dividend a Credit Union may declare is restricted as follows:

   (a) any amount may be declared if the full amount of the dividend is credited to Member Equity Accounts and

   (b) a dividend shall be limited to one-half of the Credit Union's net income if the amount is paid to members either as a return on Equity Shares, an interest rebate, or bonus interest.

No dividend may be declared if it would reduce the Credit Union's Equity below the Equity level of the previous fiscal year end, except in the case of Credit Unions with Equity of more than 5%. In such cases,

Credit Unions shall not reduce their Equity below 5% by the declaration of a dividend.

Notwithstanding the foregoing, the RESERVE BOARD may allow a dividend to be paid on Membership Share Savings Accounts.

6. That the maximum amount that may be invested in Equity Shares or retained in a Member's Equity Account by any one member be $500.00.

7. That redemptions of Equity Shares or withdrawals from Member Equity Accounts be authorized by the directors if a member dies, or if the member no longer qualifies, or no longer resides in the common bond or trading area of the Credit Union.

8. That Equity Shares and Member Equity Accounts not be insured.

9. That Regulations require a Credit Union to allocate not less than 50% of its earnings before dividends each year to Retained Earnings until such time that a level

of 3% of average assets is attained.

10. That guidelines for Credit Unions identify the need for building into annual operating budgets an amount for allocation to Retained Earnings, as if it were a forced expense. We recognize that there are limitations to this approach in certain competitive circumstances.

11. That the issuance of Equity Shares be subject to the provisions of the SECURITIES ACT.

AUDITS/AUDITORS

AUDITS/AUDITORS

Credit Unions as financial institutions must ensure that high standards of financial reporting and disclosure are observed.

Considering the Credit Union's position of trust and the complexity of circumstances in its conduct and management, it should be mandatory that all Credit Unions appoint a well-qualified, professional external auditor.

The majority of Credit Unions have observed these requirements, but we are of the opinion that there should be no exceptions. If financial hardship is involved for small Credit Unions, arrangements should be made for some form of financial aid from the RESERVE BOARD.

RECOMMENDATIONS

1. That each Credit Union be required to appoint a qualified, independent auditor licensed to practice in Alberta to report on the annual audited financial statements to be presented to the general meeting.

2. That the auditor's duties include an examination of the balance sheet and the statements of income and Retained Earnings; and that he report whether the financial statements present fairly the financial position of the Credit Union at its year end and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

3. That each Credit Union with deposits in excess of $1 million be required to establish an Audit Committee of not less than three directors. The minimum duties and responsibilities of such committee will be established by Regulation.

FINANCIAL REPORTING

FINANCIAL REPORTING

There has been a great deal of financial information filed with the Director of Credit Unions, the FEDERATION, and the STABILIZATION CORPORATION. Such information has been neither of a uniform nature, nor consistent with the standards set by the C.I.C.A. in its study "Financial Reporting for Credit Unions."

There is common agreement that changes should be made to the present arrangements by the Director of Credit Unions, the RESERVE BOARD, and the FEDERATION.

RECOMMENDATIONS

1. That the Director of Credit Unions, the RESERVE BOARD, and the FEDERATION arrive at a consensus on the form and content of the annual audited financial statement; however, the form and content should not vary significantly from the recommendations contained in the C.I.C.A. study mentioned above.

2. That each Credit Union be required to send to the

Director of Credit Unions, the RESERVE BOARD, and the FEDERATION a copy of its annual audited financial statement in the prescribed form and in the prescribed time.

3. That the CREDIT UNION ACT provide for quarterly reporting in a prescribed form similar to the annual reporting format. These reports should be filed with the Director of Credit Unions, the RESERVE BOARD, and the FEDERATION within a prescribed time.

4. That the FEDERATION provide the Director of Credit Unions with a quarterly report in prescribed form (the "Quarterly Report") advising on the financial condition of each Credit Union.

5. That the Director of Credit Unions examine the Quarterly Report and make whatever further inquiries or examinations he considers appropriate.

6. That the CREDIT UNION ACT provide for monthly reporting by Credit Unions of prescribed information (e.g., liquidity) to the RESERVE BOARD, to the FEDERATION, and

to the Director of Credit Unions, if he so requests.

7. That the Director of Credit Unions, the RESERVE BOARD, and the FEDERATION arrive at a consensus on the prescribed form of the Quarterly Report and the prescribed information for monthly reporting.

8. That, in accordance with the co-operative principle of open and voluntary membership, the CREDIT UNION ACT provide that any person making an application for membership in a particular Credit Union be given the most recent annual audited financial statement of the Credit Union.

9. That the most recent quarterly financial statement of the Credit Union be posted in each branch for viewing by members.

10. That the RESERVE BOARD prepare and maintain Credit Union financial and operating statistics compiled not less than annually, and that such statistics be available to the Director of Credit Unions and the FEDERATION.

REORGANIZATION

REORGANIZATION

Credit Unions are financial service organizations operating in a competitive marketplace along with all other financial institutions. It is therefore necessary for Credit Unions to have the ability to adapt to changes in the marketplace.

Among the methods used to adapt to change are rationalizing or reorganizing by liquidation, amalgamation, or buy/sell agreement, and financial restructuring by such means as issuing Equity Shares.

In the following recommendations, we have noted the need for updating the CREDIT UNION ACT to meet current standards in business legislation, to protect the rights of the various parties when a change takes place, and to provide for the means whereby change can be effected.

LIQUIDATIONS

RECOMMENDATIONS

1. That the CREDIT UNION ACT provide that a voluntary wind-up be stayed if the Liquidator determines, during the course of a liquidation, that the Credit Union is insolvent.

2. That any surplus on liquidation be paid to Shareholders as a winding-up dividend. In the absence of Shareholders, any surplus should be paid to the RESERVE BOARD.

3. That, after the commencement of a liquidation under the CREDIT UNION ACT, all creditors, not only depositor creditors, are entitled to claim against the RESERVE BOARD if the Liquidator fails to pay a creditor in accordance with the terms of his deposit or contract; however, the amount of the claim of a creditor as a depositor is limited to the amount of the deposit insurance protection being provided to depositors. The RESERVE BOARD would then be a creditor of the Credit

Union for the amount of funds advanced by it and would rank equally with any remaining creditors.

4. That the Liquidator, in his discretion, may make interim winding-up dividend payments to creditors.

5. That any interested party may apply to the Court for an Order that the liquidation be continued under the supervision of the Court in accordance with provisions similar to those in the BUSINESS CORPORATIONS ACT.

6. That an appeal process be provided where a Dissolution Order is issued by the Minister or Director of Credit Unions.

7. That, on the appointment of a Liquidator, all the powers of the board of directors cease and be vested in the Liquidator.

8. That a resolution to wind-up a Credit Union be null and void without the prior consent of the RESERVE BOARD.

AMALGAMATIONS

RECOMMENDATIONS

1. That the directors of each of the Credit Unions being amalgamated provide a statutory declaration that establishes to the satisfaction of the RESERVE BOARD that there are reasonable grounds for believing that:

   (a) each of the amalgamating Credit Unions is (and the resulting amalgamated Credit Union will be) able to pay its liabilities as they become due;

   (b) the realizable value of the assets of the amalgamated Credit Union will not be less than its liabilities; and

   (c) no creditor will be prejudiced by the amalgamation, or adequate notice has been given to all known creditors of the amalgamating Credit Unions, and no creditor objects to the amalgamation other than on grounds that are frivolous or vexatious.

2. That an amalgamation of Credit Unions be null and void without the prior consent of the RESERVE BOARD.

BUY-SELL AGREEMENTS

RECOMMENDATIONS

1. That, subject to other provisions contained in the CREDIT UNION ACT with respect to buy/sell agreements, a Credit Union have the power to sell all or part of its assets to, or purchase all or part of the assets of, another Credit Union.

2. That, where a Credit Union has sold all its assets under a buy/sell arrangement:

   (a) the vendor cease to carry on business;

   (b) the vendor be dissolved;

   (c) all assets of the vendor be transferred to and vested in the purchaser;

(d) the purchaser and the RESERVE BOARD be responsible for all of the liabilities of the vendor; and

(e) the rights of the creditors of the vendor be enforceable against the purchaser and the RESERVE BOARD.

3. That a buy/sell agreement be null and void if not consented to by the RESERVE BOARD.

EQUITY SHARE ISSUE

RECOMMENDATIONS

1. That any proposed issue of Equity Shares or other similar securities by a Credit Union be subject to the provisions of the SECURITIES ACT.

SELF-DEALING AND CONFLICTS OF INTEREST

SELF-DEALING AND CONFLICTS OF INTEREST

Self-dealing and conflicts of interest can be more troublesome in the financial sector of the economy than the non-financial sector because losses suffered by financial institutions may result in losses to depositors and thereby threaten the stability of the financial sector.

Depositors place a great deal of trust in financial institutions. If the public trust in financial institutions is abused, public confidence can deteriorate to the detriment of the system.

In the absence of rules requiring full disclosure of conflicts of interest, it is possible that decisions will be made on a subjective, rather than an objective or arm's length, basis.

RECOMMENDATIONS

1. That any director, officer, or committee member of a Credit Union having a direct or indirect interest in any contract or transaction be required to disclose his

interest and the nature and extent thereof upon becoming a director and thereafter refrain from voting in respect thereof. Any such contract or transaction, if approved by the Credit Union, shall be subject to approval of the RESERVE BOARD prior to it being entered into.

2. That any lawyer, auditor, valuator, or other external advisor providing services to the Credit Union be required to disclose to the directors his interest, either direct or indirect, and the nature and extent thereof in any contract or transaction with the Credit Union.

3. That no director, or any entity from which he receives compensation, shall act in a professional capacity or receive remuneration for acting in such a capacity in connection with the business of the Credit Union.

4. That the auditors be required to advise the directors of the Credit Union, the RESERVE BOARD, and the Director of Credit Unions of any breach of the foregoing rules coming to their attention. Provided

the auditors have acted in good faith, they should be protected against personal liability for making such disclosures.

5. That any transaction or contract entered into without compliance with the foregoing provisions be set aside at the discretion of the board of directors of a Credit Union and any benefit or profit arising therefrom be required to be repaid.

OFFENCES AND PENALTIES

OFFENCES AND PENALTIES

We believe that the existing provisions dealing with offences and penalties should be expanded upon in order to provide for greater accountability on the part of those persons connected with Credit Union operations.

RECOMMENDATIONS

1. That it be deemed an offence if a Credit Union fails or neglects to present to a meeting of directors a request or directive of the Director of Credit Unions or the RESERVE BOARD or fails to record a report of the request or directive in the minutes.

2. That any person who contravenes the provisions respecting offences by Credit Unions contained within the CREDIT UNION ACT be deemed to have committed an offence.

3. That liabilities for offences under the CREDIT UNION ACT be increased such that fines of up to $5,000.00 for individuals and $25,000.00 for corporations and/or

imprisonment of up to one year can be imposed. In addition, further penalties of up to $100.00 per day may be imposed for those offences of a continuing nature.

4. That a Credit Union may provide in its by-laws that directors, officers and committee members may be indemnified by the Credit Union against liabilities incurred in connection with the directives of their offices, provided that such persons are successful in defending any action brought against them and that they have acted in good faith.

STATISTICAL INFORMATION

STATISTICAL INFORMATION

In the initial phase of its deliberations, the Task Force attempted to gather statistical information on Alberta Credit Unions for the period 1980 to 1984.

The information that we believed was required included such items as:

(a) loan portfolio mix at the end of the fiscal periods;

(b) the amount of write-downs and write-offs by loan type for each of the fiscal periods; and

(c) the amount of unencumbered reserves at the end of the fiscal periods.

We learned that such information was not readily available, either from the FEDERATION, the STABILIZATION CORPORATION, or the Director of Credit Unions.

Although we have now been provided with some of this

information, it is incomplete and we are therefore unable to conduct a proper analysis of its contents.

We have also learned that some of the analyses prepared by Credit Unions are inappropriate. For example, we were provided with a comparative analysis of the percentage of equity verses assets of a number of the Provincial Credit Union systems. A further analysis compared this percentage to the percentage of equity maintained by other financial institutions. Such analyses are inappropriate for the following reasons:

(a) Reserves are included in equity even though the reserves in Alberta Credit Unions represent recognized but unrecorded write-downs.

(b) Membership Shares are included in Credit Union equity whereas such shares should be treated as liabilities.

RECOMMENDATIONS

We believe that the following recommendations, which

we also have made elsewhere in this Report, will result in more comprehensive and consistent information being available for analysis:

1. That annual audited financial statements be prepared in a prescribed form, which should not vary significantly from the recommendations contained in the C.I.C.A. study on Credit Union accounting.

2. That the term "reserves" not be used in the CREDIT UNION ACT and that separate accounts be maintained by Credit Unions to record allowances for bad debts and write-downs and that a Retained Earnings account be used to accumulate Equity.

3. That the RESERVE BOARD be specifically charged with gathering and maintaining appropriate statistical information.

D. CREDIT UNION FEDERATION OF ALBERTA

CREDIT UNION FEDERATION OF ALBERTA

INTRODUCTION

Incorporation

The FEDERATION is a co-operative providing financial and support services to its owners: Alberta's 130 Credit Unions and a number of co-operatives and similar organizations.

It is incorporated under the CREDIT UNION FEDERATION OF ALBERTA ACT and is also registered under the Federal COOPERATIVE CREDIT ASSOCIATIONS ACT. The FEDERATION thus is subject to both Federal and Provincial regulation.

Objects

The objects of the FEDERATION are stated in the CREDIT UNION FEDERATION OF ALBERTA ACT as follows:

(a) to further the development and services of Credit Unions in Alberta;

(b) to assist Credit Unions, cooperative associations and similar organizations in attaining their objects;

(c) to administer the Stabilization Fund for the purpose of providing financial aid to Credit Unions; and

(d) to provide financial services for its members.

Powers

For the purpose of carrying out its objects the FEDERATION's powers include:

(a) to make loans to members;

(b) to make loans to persons who are members of members of the FEDERATION;

(c) to take deposits from members and from extra-Provincial Credit Unions and co-operatives, the Government of Canada, and the Government of any Province or a municipality;

(d) to deposit money in chartered banks, Province of Alberta Treasury Branches, Central Credit Unions, Co-operative Credit Societies, or other

institutions approved by the Director of Credit Unions;

(e) to invest in investments authorized by the TRUSTEE ACT, or the COOPERATIVE CREDIT ASSOCIATIONS ACT;

(f) to borrow or raise money from Provincial or extra-Provincial sources;

(g) to hold land and improvements up to a value not to exceed 10% of the FEDERATION's assets;

(h) to maintain such reserves as it considers necessary to provide for losses from financial operations;

(i) to maintain in cash or liquidity investments an amount in aggregate not less than 5% of issued shares, 10% of term deposits, and 25% of demand deposits;

(j) to become a member of a Federally incorporated Co-operative Credit Society; and

(k) to do all other things conducive to the attainment of its objects.

ISSUES

Services

The FEDERATION has an important and vital role to play in serving the Province's Credit Union system. It provides a wide range of services to its member Credit Unions, the essential ones being:

(a) management of clearing system;
(b) management of liquidity system;
(c) management of central banking services;
(d) trade association and legislative activities for Credit Unions; and
(e) representing Alberta Credit Unions nationally and as a shareholder in the C.C.C.S.

The need for these services is the link that holds all Credit Unions together. Because its owners are its users, the FEDERATION can provide such services in a more responsive way than any other organization.

Some of the support services provided by the FEDERATION

have caused a good deal of friction within the Credit Union system because some Credit Unions believe they are not all needed, or indeed wanted. The following is a list of most of the support services provided:

(a) computer services;
(b) automated teller network;
(c) stationery and card supplies;
(d) consulting services;
(e) manuals;
(f) advertising;
(g) personnel services;
(h) training and education;
(i) collection services;
(j) development services;
(k) economic information; and
(l) communications.

Many of these services are used by medium size and smaller Credit Unions. According to some of the Credit Union briefs, the fees for these services are not always priced at market value. A number of Credit Unions advise that they prefer to shop for such services in the market

place where, in their opinion, they can choose and negotiate deals.

In the Credit Union briefs submitted, views such as the following were expressed:

> "Central should provide only essential services and get out of all the questionable money-losing services";
>
> "Central should provide all services that some of its members want on a share-cost basis"; and
>
> "Central should act as a support organization, responding to its members' needs in a coordinating and facilitating role for Credit Unions."

Other Credit Unions maintain that the FEDERATION is the centre or "hub" of the Provincial Credit Union system and, as such, provides leadership and is a "head office" for Alberta Credit Unions.

The board of directors and management of the FEDERATION need to resolve these issues.

LIQUIDITY PROVISIONS

Under the provisions of the COOPERATIVE CREDIT ASSOCIATIONS ACT, member Credit Union Centrals must maintain statutory liquidity. In addition, and by agreement, the Credit Union Centrals and C.C.C.S. have developed and established operating liquidity policies. The C.C.C.S. enforces the policies by regular monthly monitoring of the Credit Union Centrals.

Statutory Liquidity

Under the provisions of the COOPERATIVE CREDIT ASSOCIATIONS ACT, the FEDERATION must meet the following liquidity requirements:

> "an amount equal to 20% of liabilities maturing within 100 days."

Assets qualifying as statutory liquidity investments are:

(a) cash;

(b) callable certificates of deposit in banks and approved depositories (not more than 25% of which may be held in the C.C.C.S.); and

(c) obligations of the Government of Canada and the Provinces and their guarantees at market value (unencumbered).

Operating Liquidity

Each Credit Union Central, including the FEDERATION, has agreed to maintain operating liquidity equal to 6% of its Province's Credit Union assets. For example, with $2.5 billion in assets, an operating liquidity of 6% would be $150 million.

In addition, the C.C.C.S. has agreed to hold in operating liquidity investments an amount equal to 2% of total Credit Union assets of all member Provinces. Two percent of total assets of approximately $20 billion would be $400 million.

Investments qualifying for operating liquidity include:

(a) investments that qualify under statutory investment requirements;

(b) bonds at market value with a term to maturity of less than one year;

(c) commercial paper and bank notes at market value with a term to maturity of less than one hundred days; and

(d) unused lines of credit to a maximum of one-third of the Provincial 6%.

Comment

Overall, the national operating liquidity under the above arrangement looks like this:

Total Credit Union assets	$20 billion
Centrals (6%)	$ 1.2 billion
C.C.C.S. (2%)	$ 0.4 billion

The provision of adequate liquidity is vital for a financial system. Because there is a greater risk of failure of financial institutions from liquidity problems than from operating loss problems, the provisions in the

CREDIT UNION ACT must ensure an adequate level of liquidity in each Credit Union as well as in the FEDERATION. Regular monitoring must be carried out. Also, improved lending practices along with care in maintaining qualifying investments for liquidity purposes will help strengthen operating liquidity.

Lending by the FEDERATION for Liquidity and Operating Purposes

In order to provide for emergencies that may arise, the FEDERATION should arrange adequate lines of credit for each Credit Union so that funds up to the maximum allowed can be advanced immediately. However, everyday or operating lines of credit should be confined to a limit of 10% of liabilities for each Credit Union, thereby forcing the Credit Union to build member deposits for the funding of lending activities. Use of the arranged credit over the 10% level should be for emergency purposes only, and only as authorized by the RESERVE BOARD.

Lending to associate members that are not Credit Unions, cooperatives, or other similar organizations should

not be permitted. The FEDERATION must focus on its primary role as a central banker and liquidity manager for its members and shareholders.

Lending to member Credit Unions also requires further consideration. Too often it has been assumed that loan applications should be approved if permissible under the CREDIT UNION ACT, regardless of the financial condition of the borrowing Credit Union. The FEDERATION should always take the position of a prudent lender in granting credit and thus exercise normal market discipline.

EQUITY (CAPITAL AND RETAINED EARNINGS)

As at December 31, 1984, the Equity in the FEDERATION was as follows:

Share Capital	$45,030,000.00
Retained Earnings	$14,298,000.00
	$59,328,000.00

Every member Credit Union is required by policy to hold shares of the FEDERATION in an amount equal to 2% of the

Credit Union's own assets. This requirement has not always been adhered to; however, the FEDERATION could enforce compliance under the loan arrangements between itself and each Credit Union member.

Share capital and Retained Earnings at December 31, 1984 were more than 10% of assets, so that leverage was less than ten to one. With permission of the Superintendent of Insurance, a maximum of twenty to one is allowed under the COOPERATIVE CREDIT ASSOCIATIONS ACT.

Some Credit Unions have a substantial investment in the shares of the FEDERATION. A review of the requirements for share capital and the amount required to be invested by each Credit Union would be useful.

MEMBERSHIP IN THE FEDERATION

Some Credit Unions' briefs recommended membership should be compulsory in the FEDERATION in order to insure that everyone carries an equal load in the system. The same argument was presented in the brief submitted by C.C.C.S.

There are, no doubt, reasons for proposing compulsory membership. Some briefs cite banks and their relationship with the Bank of Canada as an example, but the situations are not comparable. Credit Unions own the FEDERATION in a voluntary relationship. This gives a Credit Union the final option to discontinue its membership if it cannot agree with the FEDERATION. The present relationship has stood the test of many years and encourages accountability.

One of the weaknesses in proposing compulsory membership is that the FEDERATION, unlike the Bank of Canada, provides a range of support services and activities that are not used by all Credit Unions. Some of these service are not self-supporting. If only essential services were provided, the existing voluntary relationship might bear reconsideration. Essential services are defined as those services necessary for the operation of a Credit Union system.

REGULATORY NEEDS

Because the FEDERATION is registered with permission of the Province under the COOPERATIVE CREDIT ASSOCIATIONS

ACT, it is examined by the Federal Department of Insurance at least annually. The final authority held by the Superintendent of Insurance is the power to withdraw the license that allows the FEDERATION to operate under the COOPERATIVE CREDIT ASSOCIATIONS ACT.

Upon examination of the CREDIT UNION FEDERATION OF ALBERTA ACT, it appears the Minister is given no discretion with respect to placing the FEDERATION under some form of Administration. The Minister needs such power.

A SUMMARY OF FREQUENT COMMENTS IN CREDIT UNION BRIEFS

(a) The primary role of the FEDERATION should be to serve its member Credit Unions in a responsive and cost-effective way.

(b) The STABILIZATION CORPORATION must be totally independent with the authority to set standards, prescribe corrective action, and monitor performance.

(c) There must be "room" in the FEDERATION for serving

effectively both large and small Credit Unions.

(d) Financial margins taken by the FEDERATION have been increasing, making its rates for services to Credit Unions less competitive.

(e) Operating expenses, especially those for computer services, are too high.

(f) The FEDERATION puts too much emphasis on commercial lending by Credit Unions.

NOTE: These comments are supplied as a selective summary only. Their presentation does not reflect all Credit Union opinions nor does it provide the opinion of the FEDERATION.

AN OVERVIEW OF CENTRAL

The FEDERATION can do no more than mirror the general condition of its Credit Union shareholders.

One of its major contributions can be in the provision of essential services to its member-users at the lowest

possible cost, thus assisting Credit Unions in a most practical way by helping to reduce their costs and increase their financial margins. The emphasis should be on improving profitability at the Credit Union level and maintaining the FEDERATION in a sound financial position sufficient to carry out its assigned function.

RECOMMENDATIONS

1. That new objects for the FEDERATION consistent with its role and mandate be created as follows:
   (a) manager of the Credit Union clearing system;
   (b) manager of the Credit Union liquidity system;
   (c) manager of central banking and cash management for the Credit Union system;
   (d) manager of trade association and legislative activities for Credit Unions; and
   (e) provider of support services for Credit Unions and other members.

2. That the FEDERATION be given the necessary powers in order to carry out the objects recommended:

(a) As manager of the Credit Union clearing system it should be provided with the following powers:

(i) to make loans to its members;

(ii) to take deposits from members and pay interest;

(iii) to borrow from C.C.C.S. and provide security as required;

(iv) to borrow from the RESERVE BOARD, and provide security as required;

(v) to become a member of the C.C.C.S., the Canadian Payment System, and other Cooperative Credit Societies;

(vi) to enter into agreements with other financial institutions; and

(vii) to make deposits in chartered banks, Province of Alberta Treasury Branches, Cooperative Credit Societies, or other approved institutions.

(b) As manager of the Credit Union liquidity system it should be provided with the following powers:

(i) to grant lines of credit for the purpose of making loans to its members and to take security;

(ii) to accept deposits from members and pay interest;

(iii) to deposit money with C.C.C.S., chartered banks, Province of Alberta Treasury Branches, Cooperative Credit Societies, or any other institutions approved by the Director of Credit Unions;

(iv) to make qualified investments as authorized under the TRUSTEE ACT or the COOPERATIVE CREDIT ASSOCIATIONS ACT;

(v) to arrange borrowing by means of lines of credit or loans from C.C.C.S, chartered banks, and other lenders approved by the Director of Credit Unions, and to grant security as agreed upon.

(c) As manager of central banking and cash management for the Credit Union system it should be provided with the following powers:

(i) to accept deposits and pay interest;

(ii) to make loans to members and shareholders;

(iii) to make qualified investments as authorized under the TRUSTEE ACT or COOPERATIVE CREDIT ASSOCIATIONS ACT;

(iv) to enter into agreements with other financial institutions where necessary to carry out its objects;

(v) to acquire, hold, and dispose of any shares or other securities of a body corporate not otherwise eligible, subject to approval of the Director of Credit Unions;

(vi) to draw, make, accept, endorse, execute, and act upon promissory notes, bills of exchange, bills of lading, warrants, orders to pay, and other negotiable or transferable instruments; and

(vii) to take, hold, release, realize, or otherwise dispose of any securities held for loans whether the securities are real or personal property.

(d) As manager of trade association and legislative

activities for Credit Unions and other similar organizations it should be provided with the following powers:

(i) to assess dues of members and

(ii) to accept as members all Credit Unions, cooperative associations, and similar organizations.

(e) As provider of support services for Credit Unions and other members it should be provided with the following powers:

(i) to establish services for members that are consistent with its objects;

(ii) to make expenditures in providing for support services; and

(iii) to charge a fee for services rendered.

3. That loans be made only to members and shareholders.

4. That the power to borrow or raise money be limited to liquidity and clearing purposes only.

5. That the power "to do all other things conducive to the attainment of its objects" be removed and replaced with "to do all things that are incidental and ancillary to the attainment of its objects."

6. That the power granted under Regulation to hold, purchase, or acquire (by lease or otherwise) land and improvements be changed to a maximum of 5% of assets from 10% of assets and that such purchase, acquisition, or lease be limited to property for the FEDERATION'S own use.

7. That the FEDERATION determine and record in its books and records an allowance for losses against loans and allowance for writedowns on other assets in accordance with generally accepted accounting principles.

8. That the liquidity reserve provisions be replaced in their entirety by the following provisions:

That an amount equal to 20% of liabilities maturing within one hundred days be maintained in statutory liquidity investments. Assets qualifying as such

investments are:

(a) cash;

(b) callable certificates of deposit in chartered banks, Province of Alberta Treasury Branches, Co-operative Credit Societies, and C.C.C.S.; and

(c) obligations of the Government of Canada, the Provinces, and their guarantees at market value (unemcumbered).

9. That the existing provisions for directors of the FEDERATION as contained in the by-laws be amended:

(a) to bring them into line with those recommendations for Credit Unions, except where such provisions are inconsistent with the objects of the FEDERATION and

(b) to include a provision that no general manager of a Credit Union under Supervision of the RESERVE BOARD shall serve as a director of the FEDERATION.

10. That the provision for auditors be the same as that

recommended for Credit Unions.

11. That a review of the FEDERATION's services and operations be undertaken with the objective of cost-effectiveness and competitiveness in its essential services and the recovery of costs in non-financial or support services.

12. That the FEDERATION'S investment policies be revised in order to provide for the following priorities: safety, liquidity, and yield, in that order. This would be appropriate in accordance with the role of the FEDERATION as the liquidity and clearing manager for the Credit Union system.

13. That lending policies be revised to reflect that the FEDERATION's role as a lender requires the same judgment and application of sound underwriting criteria as used by a prudent lender.

14. That a study of the adequacy of Capital and Retained Earnings be undertaken for the purpose of establishing policies that serve the interests of both Credit Unions

and the FEDERATION with respect to the amount of shares held by each Credit Union and the need for the continued buildup of capital.

15. That the FEDERATION, as facilitator and coordinator, initiate future planning for Credit Unions by involving Credit Unions in a study of alternative directions available, some of which are outlined in the "Future" section.

16. That the Minister be given statutory authority to deal with the Administration of the FEDERATION under defined circumstances by order of the Lieutenant Governor in Council.

17. That the RESERVE BOARD be empowered to issue cease-and-desist orders to stop unsound practices of the FEDERATION.

18. That no remuneration arrangements be made on a basis that would relate to the profits or an increase in the assets of the FEDERATION.

19. That the FEDERATION provide the RESERVE BOARD with copies of reports and information requested by and supplied to the Superintendent of Insurance, Ottawa.

E. THE ALBERTA CREDIT UNION RESERVE BOARD

THE ALBERTA CREDIT UNION RESERVE BOARD

The STABILIZATION CORPORATION currently:

(a) is a statutory corporation created by the CREDIT UNION ACT;
(b) has no shareholders; and
(c) is administrated by a five-member board of directors.

At present, the objects of the STABILIZATION CORPORATION include:

(a) to assure the repayment of money invested in shares and the deposits of Credit Unions;
(b) to protect and stabilize Credit Unions in financial difficulty; and
(c) to provide preventive services to avert financial difficulties or to recoup losses incurred by Credit Unions or their members.

To carry out its objects, the STABILIZATION CORPORATION was given the necessary powers.

To finance its operations and to create a pool of funds to meet the obligations it might incur in carrying out its objects, the STABILIZATION CORPORATION levied quarterly assessments on all Credit Unions. At December 31, 1984, its pool of funds (the "Fund") was approximately $38 million.

The STABILIZATION CORPORATION had interpreted its mandate as being to provide whatever assistance was necessary to perpetuate the existence of Credit Unions. This is exemplified by the fact that the STABILIZATION CORPORATION, in carrying out its mandate, had incurred obligations in an amount substantially in excess of its ability to pay.

FUTURE ROLE

It is proposed that the STABILIZATION CORPORATION's successor now become the insurer, not the assurer, of members' deposits, including Membership Share Savings Accounts. The successor will also be required to mitigate claims by depositors on its assets and, therefore, will be required to take a more pragmatic approach to resolving Credit Union financial difficulties by pursuing the least-

cost alternative.

RECOMMENDATIONS

1. That the name of the STABILIZATION CORPORATION be changed to the ALBERTA CREDIT UNION RESERVE BOARD.

2. That new objects for the RESERVE BOARD consistent with it new role be stated as:

   (a) to insure member deposits including Membership Share Savings Accounts and

   (b) to minimize exposure to its assets.

   The RESERVE BOARD must be granted powers commensurate with the responsibilities inherent in carrying out its objects.

3. That, as insurer, the RESERVE BOARD be granted the following powers:

   (a) to levy assessments;

(b) to enter into loan arrangements with C.C.C.S., C.D.I.C., A.D.I.C., and private sector lenders;

(c) to pledge its assets as security as part of its loan arrangements;

(d) to acquire qualified investments; and

(e) to secure re-insurance from the A.D.I.C.

4. That, in order to minimize exposure to its assets, the RESERVE BOARD be granted the following powers:

(a) to examine and inspect all Credit Unions (currently the responsibility of Consumer and Corporate Affairs);

(b) to receive the filing of quarterly and annual financial statements in prescribed form from all Credit Unions;

(c) to place a Credit Union under Supervision or Administration at the discretion of the RESERVE BOARD;

(d) to receive from the FEDERATION the same reports and information as requested and supplied to the Superintendent of Insurance, Ottawa;

(e) to develop guidelines, under authority of Regulations, for the purpose of establishing asset diversification programs for Credit Unions;

(f) to receive applications for approval from any Credit Union making a loan requiring the prior approval of the RESERVE BOARD;

(g) to receive applications for approval from Credit Unions to syndicate a loan;

(h) to require Credit Unions to arrange with the RESERVE BOARD for a transitional period to reduce their business and commercial loans to an amount not exceeding 25% of a Credit Union's loan portfolio;

(i) to set a minimum standard of insurance for Credit Unions and to administer the Master Bond Contract

for all Credit Unions;

(j) to regulate and monitor the liquidity provisions of the CREDIT UNION ACT as they apply to Credit Unions and the FEDERATION;

(k) to receive funds from Credit Unions by means other than assessments and to stipulate the accounting treatment thereof; and

(l) to approve a voluntary liquidation of a Credit Union, the amalgamation of two or more Credit Unions, and a buy/sell agreement entered into by two or more Credit Unions.

5. That the RESERVE BOARD be required to place a Credit Union under Supervision when the Credit Union's Equity falls below 1% of its liabilities.

6. That the RESERVE BOARD be provided with the authority to oversee the management of the following three functions by the FEDERATION as they significantly impact upon the integrity of a Credit Union's assets

and its ability to operate on a viable basis. If the RESERVE BOARD deems it appropriate, it should have the authority to assume the powers and the responsibilities of the FEDERATION in one or more of these areas. These three functions are:

(a) the central banking function wherein the FEDERATION makes loans to Credit Unions from the deposits it receives from Credit Unions and from Credit Unions' statutory investments held by the FEDERATION;

(b) the liquidity management function wherein the FEDERATION dedicates a portion of the Credit Unions' statutory investments held by it to meet the daily liquidity requirements of its member Credit Unions; and

(c) the investment function wherein the FEDERATION invests a portion of the Credit Unions' statutory investments held by it and funds of Credit Unions placed on deposit with the FEDERATION.

However, the ability of the RESERVE BOARD to assume the

powers of the FEDERATION in these areas will be subject to the following:

(a) The RESERVE BOARD will review the policies of the FEDERATION in each of these areas and communicate to the FEDERATION which policies it approves and, if it does not approve of a policy, advise the FEDERATION of the changes required that will make the policy acceptable to the RESERVE BOARD. Such policies will then become the accepted standard.

(b) If the FEDERATION breaches an accepted standard, the RESERVE BOARD must give the FEDERATION notice of the breach and a reasonable period of time to rectify the breach. Reasonableness will depend upon the circumstances.

(c) If the FEDERATION does not correct the breach within the time specified, the RESERVE BOARD, on reasonable notice, may assume the powers of the FEDERATION relating to the particular function and the FEDERATION'S powers will not apply to that particular function.

(d) The FEDERATION may appeal any such actions by the RESERVE BOARD.

7. That the RESERVE BOARD have the responsibility and authority to regulate and monitor the liquidity provisions of the CREDIT UNION ACT as they apply to the FEDERATION.

8. That, in addition to the powers mentioned above, the RESERVE BOARD be granted all those powers necessary to carry out its mandate, including the power to make by-laws governing its operations, providing they are consistent with its objects and powers.

9. That the RESERVE BOARD be required to prepare a quarterly report to the Director of Credit Unions advising on the financial condition of each Credit Union.

10. That the RESERVE BOARD file its annual audited financial statements with the Minister, the FEDERATION, and all Credit Unions.

11. That the RESERVE BOARD be charged with the responsibility of maintaining statistical information on all Credit Unions. In that regard, the RESERVE BOARD, the Director of Credit Unions, and the FEDERATION should arrive at a consensus on the form, content and timing of the various reports.

12. That the RESERVE BOARD be appointed as follows:

    (a) The five-person board of directors be appointed by the Lieutenant Governor in Council on an interim basis as provided in the CREDIT UNION AMENDMENT ACT.

    (b) Succeeding arrangements for appointments to the board of directors should provide that three individuals be appointed by the Minister and two other individuals representing Credit Unions be chosen by the Minister from names submitted by Credit Unions.

    (c) The Chairman and Vice-Chairman should continue to be appointed by the Minister.

(d) To provide continuity, all appointments should be for staggered three-year terms unless otherwise stated.

13. That the insurance coverage provided by the RESERVE BOARD be limited to $60,000.00 and apply to those accounts more particularly described in the recommendations on deposit insurance.

14. That any funds received by the RESERVE BOARD be invested outside of the Credit Union system to ensure liquidity and availability to the RESERVE BOARD. The terms of such investment shall not exceed three years and shall only be in the form of securities issued by the Government of Canada or the Province of Alberta, securities guaranteed by the Government of Canada or the Province of Alberta, and deposits with Schedule "A" banks and Province of Alberta Treasury Branches. This provision does not apply to financial aid extended by the RESERVE BOARD to Credit Unions.

F. THE FUTURE ROLE OF GOVERNMENT

THE FUTURE ROLE OF GOVERNMENT

Legislation governing the operations of Credit Unions, the RESERVE BOARD, and the FEDERATION requires substantial revision and updating to reflect the current state of financial institutions.

The purpose of proposed legislative changes is to contribute to the following objectives:

(a) the establishment of a regulatory and administrative structure that will encourage the necessary checks and balances required for a healthy Credit Union system;

(b) the instillment of public confidence in Credit Unions as financial institutions;

(c) the protection of depositors in Credit Unions;

(d) the provision of a standard of conduct for directors and officers of Credit Unions; and

(e) the strengthening of market discipline forces.

It is proposed that these changes be encompassed within the following legislative and statutory framework.

CREDIT UNIONS

The CREDIT UNION ACT, under which all Alberta Credit Unions are incorporated, is a Provincial statute administered under the authority of the Minister.

Under the direction of the Deputy Minister, the Executive Director of Financial Institutions monitors financial institutions, including Credit Unions. The Director of Credit Unions reports to the Executive Director and is responsible for the administration and supervision of Credit Unions as set forth in the CREDIT UNION ACT.

The examination of Credit Unions as required under the CREDIT UNION ACT is carried out by government staff under the direction of the Executive Director of Regional Services with the examination results being forwarded to the Director of Credit Unions.

BACKGROUND

In the portion of this Report dealing with the STABILIZATION CORPORATION, we have recommended making the RESERVE BOARD, instead of the Director of Credit Unions, responsible for the examination of Credit Unions. We feel the process would be more effective if the examiners were part of the organization responsible for insuring the deposits of Credit Unions and for their monitoring and regulation in most operating matters. In addition to achieving the benefit of a direct reporting relationship to RESERVE BOARD management, this arrangement should be more cost effective as it consolidates examination staffs of both the RESERVE BOARD and Consumer and Corporate Affairs.

RECOMMENDATIONS

1. That the examination and inspection of all Credit Unions be consolidated under the authority of the RESERVE BOARD.

2. That copies of the regular examination report and other such reports as are requested be made available

to the Director of Credit Unions.

3. That the responsibility for compiling and maintaining financial information and statistical data of Credit Unions be placed with the RESERVE BOARD.

4. That the Director of Credit Unions continue to carry out the following primary duties and responsibilities:

(a) administer and monitor Credit Unions as required under the CREDIT UNION ACT and its Regulations;

(b) act as Registrar of Credit Unions and monitor all matters of incorporation;

(c) participate in the appeal process as required under the CREDIT UNION ACT;

(d) receive and maintain quarterly and annual reports covering all Credit Unions in the prescribed form; and

(e) undertake investigation on matters of consumer

protection.

CREDIT UNION FEDERATION OF ALBERTA

THE CREDIT UNION FEDERATION OF ALBERTA ACT was enacted in 1967 and provided for the incorporation of the FEDERATION. It provides that the Lieutenant Governor in Council may delegate to the Minister or Director of Credit Unions the power to make Regulations, and to the FEDERATION the power to make its own by-laws.

BACKGROUND

At present, the legislation governing the FEDERATION is separate from that respecting Credit Unions and most of the objects and powers are set forth in Regulation rather than Statute.

We believe that it would be a better arrangement if the statutory and regulatory provisions of the CREDIT UNION FEDERATION OF ALBERTA ACT were contained in the CREDIT UNION ACT.

RECOMMENDATIONS

1. That the statutory provisions respecting the FEDERATION be contained in the CREDIT UNION ACT.

2. That the Minister be charged with the administration of the CREDIT UNION ACT and be granted the power to make Regulations.

3. That the by-laws of the FEDERATION be filed with and approved by the Director of Credit Unions and the RESERVE BOARD.

4. That the Minister may place the FEDERATION under Administration.

5. That the Director of Credit Unions may order an investigation of the affairs of the FEDERATION or request such other information as may be required.

THE ALBERTA CREDIT UNION RESERVE BOARD

The STABILIZATION CORPORATION is at present

incorporated under the provisions of Part II of the CREDIT UNION ACT.

BACKGROUND

The proposed new role of the RESERVE BOARD as set forth in this Report transforms it into a quasi-public body, with the responsibilities of deposit insurance and the administration of regulatory functions.

It is desirable that a reasonable arm's-length relationship be established among the RESERVE BOARD and the Credit Unions and the FEDERATION.

RECOMMENDATIONS

1. That the ALBERTA CREDIT UNION RESERVE BOARD ACT be established under Provincial legislation for the purpose of incorporating the ALBERTA CREDIT UNION RESERVE BOARD, providing for the merging of the STABILIZATION CORPORATION into the RESERVE BOARD, and assuming all of its rights, privileges, and powers.

2. That the name of this new board be the ALBERTA CREDIT UNION RESERVE BOARD.

3. That the Minister be charged with the administration of the ALBERTA CREDIT UNION RESERVE BOARD ACT and Regulations thereunder.

4. That the by-laws of the RESERVE BOARD be approved by and filed with the Minister.

APPEALS

Under the present CREDIT UNION ACT, Credit Unions can appeal decisions by the STABILIZATION CORPORATION to place them under Supervision. Appeals can be made to the Director of Credit Unions.

It is desirable to maintain a form of appeal procedure with respect to orders of Supervision and, in addition, to allow for appeals of RESERVE BOARD decisions in relation to other matters of major significance affecting the FEDERATION as well as Credit Unions.

We feel that an appeal to the Director of Credit Unions alone places too much responsibility on one person and that a Appeal Board should be established to hear specified appeals. For all matters that are not of a serious nature, we feel that the body making the initial decision can adequately hear and render a decision on appeals.

RECOMMENDATIONS

1. That a three-person Appeal Board be established to hear appeals of decisions made by the RESERVE BOARD affecting Credit Unions.

2. That the Appeal Board consist of the Director of Credit Unions, one director of the RESERVE BOARD, and one director of the FEDERATION.

3. That appeals of decisions made by the RESERVE BOARD affecting the FEDERATION be directed to the Lieutenant Governor in Council, as recommended by the Minister.

G. THE FUTURE PROTECTION OF CREDIT UNION DEPOSITORS IN ALBERTA

THE FUTURE PROTECTION OF CREDIT UNION DEPOSITORS IN ALBERTA

INTRODUCTION

Credit Unions in the Province of Alberta need a form of deposit insurance for their members - definite and specific insurance coverage backed by a credible insuring organization that will remove any doubts for the depositor. It would also provide the needed credibility for Credit Unions as deposit-taking institutions.

Deposit insurance is an essential component of the financial system. It not only provides protection for the depositor but stability and order for the financial organization using it. Without the ability to attract deposits at competitive rates of interest, it is becoming increasingly difficult for small financial institutions to obtain adequate funding from deposits.

PROPOSAL FOR DEPOSIT INSURANCE

It is proposed that the ALBERTA DEPOSIT INSURANCE

CORPORATION ("A.D.I.C.") be established for the purpose of providing deposit insurance coverage for depositors in qualifying financial institutions and re-insurance for the RESERVE BOARD.

The A.D.I.C. would be created by statute and would be an agent of the Provincial Government. As such, it would qualify under the CANADA DEPOSIT INSURANCE CORPORATION ACT for the purposes of using the lender-of-last-resort facilities.

RECOMMENDATIONS

1. That the ALBERTA DEPOSIT INSURANCE CORPORATION be established as an agent of the Provincial Government under the ALBERTA DEPOSIT INSURANCE CORPORATION ACT and that it provide re-insurance and lender of last resort facilities for the RESERVE BOARD.

2. That the objects and powers of the A.D.I.C. be those outlined below.

3. That an agreement be entered into with the RESERVE

BOARD to provide re-insurance and lender of last resort facilities that will enable the RESERVE BOARD to carry out its mandate with respect to deposit insurance.

4. That a premium be levied by the A.D.I.C., payable by the RESERVE BOARD at a rate of 1/60th of 1% of insured deposits of Credit Unions or such other premiums as may be determined by the competition or the real cost.

5. That a transitional period be arranged to allow for proper notice to all Credit Union members and to provide the necessary time for any rearrangement of the deposits. A proposal is outlined below for the transitional period.

6. That discussions be held with both the appropriate Federal and Provincial departments respecting the feasibility of establishing a method of insuring deposits in Credit Unions on a national basis.

7. That the deposit insurance coverage be $60,000.00 for each of a member's personal account, joint account, corporate account, and R.R.S.P. account.

TRANSITIONAL PERIOD

It will be necessary to arrange for an organized transitional period so that depositors in Credit Unions are advised of the deposit insurance coverage.

One approach is described below:

(a) All current term deposits will be fully guaranteed until thirty days after maturity.

(b) All new term deposits will be guaranteed to a maximum of $60,000.00 or the amount of the term deposit plus interest, whichever is less.

(c) For the following one year period, demand deposits remain 100% guaranteed. Effective in one year's time, all demand deposits will be covered by the new insurance.

(d) Effective in one year's time, the A.D.I.C. will assume the role of re-insuring the RESERVE BOARD in its role as the direct insurer of

members' shares and deposits in Credit Unions.

THE RELATIONSHIP BETWEEN THE ALBERTA CREDIT UNION RESERVE BOARD AND THE ALBERTA DEPOSIT INSURANCE CORPORATION

The RESERVE BOARD would provide the deposit insurance coverage to depositors in Credit Unions and, in turn, would enter into an agreement with the proposed A.D.I.C.

This agreement would provide for:

(a) a lender of last resort facility;

(b) a re-insurance arrangement that would provide back-up coverage for each depositor in the same coverage extended by the RESERVE BOARD in the event of the failure or inability of the RESERVE BOARD to meet its obligations; and

(c) an arrangement whereby the premium for this re-insurance coverage and lender of last resort facility could be negotiated and would reflect the lesser degree of risk taken by the

re-insurer.

THE ALBERTA DEPOSIT INSURANCE CORPORATION

Incorporated by statute and qualifying as an agent of the Provincial Government, the A.D.I.C. would have the following mandate:

(a) to guarantee the payment of deposits;

(b) to provide a re-insurance program to the RESERVE BOARD;

(c) to determine on an annual basis the adequacy of the financial position of the RESERVE BOARD;

(d) to manage funds accumulated through the collection of premiums;

(e) to administer the system of licensing and permits to financial institutions;

(f) to guarantee only those deposits made in

Alberta and payable in Alberta;

(g) to make advances of funds on a secured or unsecured basis to an institution, including the RESERVE BOARD; and

(h) to acquire assets, guarantee liabilities, and carry out such other activities as are deemed necessary to execute its mandate.

The powers granted to the A.D.I.C. to carry out its mandate would be those required to minimize or avoid losses.

In addition to those funds accumulated through the collection of premiums from financial institutions, it may obtain funds by way of advances from the Provincial Government.

The Provincial Government may also provide assistance in the form of a guarantee of the repayment of any commitment of the A.D.I.C.

The A.D.I.C. would invest all its funds with the Provincial Government or with the Province of Alberta Treasury Branches.

Insurance Premium

The premium to be paid by all Credit Unions for the proposed deposit insurance should be the same as that charged by the Ontario Share and Deposit Insurance Corporation (O.S.D.I.C.) and by C.D.I.C. In both cases the premium is equal to 1/30th of 1% of insured deposit liabilities.

This is a flat-premium basis. The alternative of a risk-related premium has been considered and rejected as inappropriate for the Credit Unions operating in Alberta. For a group that is closely linked by common objectives and a shared ownership of a Credit Union Central-operated system, a flat premium basis is the obvious choice.

With an estimated $2 billion in shares and deposits to be insured, the total premium would be approximately $700,000.00 per annum. This could be billed and collected

by the RESERVE BOARD as the primary provider of the deposit insurance.

In addition to its regular assessment, the RESERVE BOARD may assess and collect an additional premium from each Credit Union as it deems necessary to safeguard its assets.

Effective Regulation and Supervision

The provision of deposit insurance at a manageable cost to Credit Unions is both feasible and practical, providing the regulatory and supervisory standards are adequate to keep claims at a minimum level.

In those sections of this Report dealing with Credit Unions and the RESERVE BOARD, major emphasis has been placed on introducing measures that will improve the financial integrity of Credit Unions and strengthen their liquidity and on the application of regulations that will reduce the number of risk factors.

If the recommendations of this Report are implemented, the RESERVE BOARD will significantly improve its capability

to detect poor financial practices: the effective operations of an early warning system will disclose problems earlier than is presently possible.

The inspection and examination of Credit Unions on a regular basis by the RESERVE BOARD should provide a consistent and direct method of determining the financial condition of each Credit Union on a timely basis.

These measures are all designed to minimize risk and reduce claims against the RESERVE BOARD, thereby minimizing the probability of losses by the proposed A.D.I.C.

Deposit Insurance Coverage

Recently, alternative ways of insuring deposits and of introducing market discipline for depositors have been discussed by some of the financial institutions in Canada.

For example, greater disclosure of information by each financial institution has been suggested. However, in our opinion, this is a doubtful proposition. Most individuals are not capable of reading financial statements, let alone

assessing the soundness of a complex financial institution.

Modifying the amount of coverage by the use of co-insurance is another method suggested to bring some discipline into the transaction. Because most depositors would not be capable of determining the degree of risk in a co-insured deposit, uninformed "measurements" would probably be used.

The alternative and the most practical method is, of course, better monitoring and regulation so that bad situations are disclosed early enough for corrective measures to be enforced.

The amount of coverage, as provided by C.D.I.C., is $60,000.00 per person, per institution. Covered in this definition is $60,000.00 in each of an individual's personal account, joint account, and corporate account, with each account being insured separately for the same maximum amount.

Providing specific coverage may result in some deposits being redistributed among Credit Unions, but it is doubtful

that it would have any major lasting effect. Information supplied by Credit Unions and the FEDERATION indicates that a majority of all deposits fall within the proposed coverage.

A Discussion of a Possible C.D.I.C. Arrangement

A national form of deposit insurance for all Credit Unions that may wish to qualify is an interesting alternative to the proposed Provincial arrangement. A national insurance pool would provide the diversity of spreading of risk, combined with a large deposit base that would make it economically feasible.

The sharing of Federal and Provincial jurisdictions is already being accomplished by C.D.I.C. C.D.I.C. is at present providing lender-of-last-resort facilities for liquidity purposes to most Credit Union Centrals and the Stabilization Corporations in Canada.

A separate deposit insurance fund provided by C.D.I.C. for Credit Unions only with similar coverage and premiums is a definite possibility if consensus can be reached by the

Provinces and the Credit Unions.

Because we do not wish to see any delay in establishing deposit insurance, we are of the opinion that the Provincial proposal should proceed. Given the greater complexity of the national alternative, it should be pursued as the final arrangement as soon as possible.

Similar legislation in each Province across Canada would precede the creation of a uniform regulatory environment and provide a basis for risk-related premium assessments.

THE PROTECTION OF DEPOSITS BY CREDIT UNIONS

Historical Background

Quite early in their development of a National and Provincial structure, Canada's Credit Unions saw that some arrangement was needed to protect member deposits. In Saskatchewan and British Columbia, organizations known as Stabilization Corporations with similar aims and objectives were started in the 1950's. In Alberta, a Fund was

established in the 1950's and the STABILIZATION CORPORATION was set up in 1975.

In both Alberta and Saskatchewan, Credit Unions were always managed by a Central Credit Union and considered as an extension of the Central Credit Union. In approximately 1965, British Columbia followed the pattern set in the United States and modelled its deposit protection organization on the Federal Savings and Loan Deposit Insurance Corporation. It became a separate entity in every sense - legally, managerially, and financially. Manitoba and Ontario also established similar Stabilization Corporations for the same purpose. These two Corporations were also organized as part of each Province's Central Credit Union structure, in fact, if not legally.

The purpose of all these Provincial Credit Union organizations (commonly called "Stabilization Funds") has been to protect and stabilize Credit Unions in financial difficulties by loans, advances, grants, or other such means, and to assume the repayment of money invested in shares of or deposits with a Credit Union.

The Federal Government introduced deposit insurance legislation for banks and trust companies in 1967. Following the passage of the Federal legislation, Ontario elected to go under the program for trust companies only, and developed the O.S.D.I.C. for its Credit Unions. This deposit insurance corporation is similar to the C.D.I.C.

The O.S.D.I.C. is a statutory corporation and a corporate body without share capital. All directors are Government appointed and two of them must be chosen from Credit Unions. The primary role of the O.S.D.I.C. is that of insurer for shares and deposits, up to a maximum amount of $60,000.00. It is also empowered to act as the administrator and liquidator of a Credit Union.

It may also provide financial assistance for continued operation of a Credit Union or for its liquidation. In addition to its role as guarantor and insurer of shares and deposits, it manages a Stabilization Fund equal to 1% of shares and deposits of its Credit Unions. Thus a dual role is carried out by O.S.I.D.C.

The insurance is funded by a premium of $0.70 per

$1,000.00 levied annually on all shares and deposits.

The other Provinces did not establish deposit insurance corporations. They had Provincial trust companies register with C.D.I.C. since their Credit Unions were already protected by their Credit Union Stabilization Corporations (and still are to date).

Canada Deposit Insurance Corporation

This federal crown corporation provides deposit insurance to banks and trust companies across Canada. Its objective and aims are to provide deposit insurance for depositors for a specified amount. C.D.I.C. charges a premium of 1/30th of 1% per annum on the insurable deposits of the member institutions. It has borrowing authority from the Federal Government for up to $1.5 billion.

Deposits are insured for up to $60,000.00 per account, per person, per institution. This includes individual funds in each of a personal account, a joint account, a trust account, and a corporate account.

Deposit Guarantee or Stabilization Boards

Credit Unions developed this concept to aid Credit Unions in financial difficulty and to prevent losses by individual Credit Union members by providing an unlimited guarantee on deposits and share savings. It has a preventive function designed to stabilize and maintain sound operations, thereby avoiding or reducing losses by a Credit Union. The Stabilization Boards are given power under the Credit Union Acts.

Their basic role allows them to:

(a) provide for preventive services to avoid or reduce losses;

(b) provide general insurance and bonding programs;

(c) provide Supervision of Credit Unions deemed to be in unsound financial situations;

(d) place an administrator in a Credit Union to replace the board of directors;

(e) make assessments to maintain their Guarantee Funds and to pay administrative expenses; and

(f) provide other assistance as deemed necessary.

A Stabilization Board administering a fund under a Stabilization program cannot cancel the assurance it provides all Credit Union depositors: it is a compulsory program.

Each Stabilization Fund covers a Province and every Credit Union in that Province is subject to the relevant provisions in the Provincial Act governing Credit Unions.

Deposit Insurance and Stabilization

Both Quebec Caisse Populaires and Ontario Credit Unions have Stabilization Funds and Deposit Insurance. In each Province, protection for depositors is first provided by the Stabilization organization: the deposit insurance may be claimed only after depletion of the Stabilization Fund.

In return for this arrangement, the Quebec Deposit

Insurance Board charges a premium of 1/60th of 1% instead of its regular 1/30th of 1%.

H. THE FUTURE

THE FUTURE

Providing Credit Union services on a competitive basis through the 130 Credit Unions that are currently active in the Province is becoming increasingly difficult. The difficulty in maintaining market share and profitability is understandable if we look at the composition of the group.

There are approximately 100 relatively small Credit Unions and 30 larger Credit Unions, only about six of which can be described as larger retail financial institutions.

Current trends in the financial market place require extensive use of sophisticated marketing tied in with advanced technology. This is evident in such services as fully computerized, Province-wide inter-branch services; automated teller services available at most branches and at free-standing service centres; and the provision of debit and credit cards.

All of these services require substantial capital expenditures and significant ongoing operating funds, which can only be obtained by healthy financial margins on loans

and deposits, by service fees, and by economies of scale.

Today, at most successful retail financia institutions, economies of scale are a major factor i providing the ability to cover these costly services. A deregulation of market segmentation continues and gathe speed, small independent organizations like Credit Unio will face a growing challenge that will threaten their survival.

The choices will probably be:

(a) to reinforce the personal approach and local r of small independent financial organizations maintain a diminished but viable position;

(b) to reorganize the Credit Unions of the Prov into about six regional Credit Unions that wil able to employ economies of scale as a strategy for their future success; or

(c) to establish a Province-wide system similar tc used in a franchise-type operation.

In undertaking strategic planning, the first step is to identify what the present situation is for Credit Unions as a group and then develop the alternatives. Choosing the best alternative and obtaining major support from all Credit Unions will be necessary for any major new initiative to be undertaken.

Only in this way can future planning be established that will take into consideration all the alternatives available for Credit Unions in developing a useful and a successful role as providers of financial services for the people of this Province. This is a role that the FEDERATION should actively pursue as it can represent all Credit Unions in the Province.

This process is time consuming and, in the meantime, there are some urgent situations, especially in Edmonton and Calgary. As an interim measure, there is a need for some rationalization in the number of Credit Unions serving these two cities. There are too many and they are too small, which results in overlapping, inter-Credit Union competition and no effective economy of scale.

These comments are made on the assumption that Credit Union leadership is prepared to subordinate local objectives for the overall common good of Credit Unions and their members. Without doubt, both the interim and long-term decisions required now are matters of survival, not just improvement.